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The Pro and Con Monthly

May, 1932

Congress Writes a New Tax Bill




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# The Congressional Digest

## The Pro and Con Monthly

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# The 72d Congress Writes a New Tax Bill

## Foreword

THOSE who are inclined to be harshly critical of the members of the House of Representatives for the manner in which they behaved last month while working out a new tax bill might well remember the lines written by Rudyard Kipling:

> The toad beneath the harrow knows
> Exactly where each tooth-point goes.
> The butterfly upon the road
> Preaches contentment to the toad.

To levy taxes is never an easy task, even in prosperous times. To levy taxes at a time when there is a nation-wide complaint against the rising costs of government is about as onerous a task as is possible to contemplate.

In his Farewell Address to the People of the United States, issued on September 17, 1796, six months before he completed his second term as President, George Washington wrote:

> "As a very important source of strength and security, cherish public credit. One method of preserving it is to use it as sparingly as possible: avoiding occasions of expense by cultivating peace, but remembering also that timely disbursements to prepare for danger frequently prevent much greater disbursements to repel it avoiding likewise the accumulation of debt, not only by shunning occasions of expense, but by vigorous exertions in time of Peace to discharge the debts which unavoidable wars may have occasioned, not ungenerously throwing upon posterity the burthern which we ourselves ought to bear. The execution of these maxims belongs to your Representatives, but it is necessary that public opinion should cooperate. To facilitate to them the performance of their duty, it is essential that you should practically bear in mind, that towards the payment of debts there must be Revenue; that to have Revenue there must be taxes, that no taxes can be devised which are not more or less inconvenient and unpleasant, that the intrinsic embarrassment inseparable from the selection of the proper objects (which is always a choice of difficulties) ought to be a decisive motive for a candid construction) of the conduct of the Government in making it, and for a spirit of acquiescence in the measures for obtaining Revenue which the public exigencies may at any time dictate."

Practically every member of Congress agrees with George Washington as to the necessity of preserving the public credit. To a man they say a profound "Amen" to his statement as to the unpleasantness of taxes.

By the time the revenue bill reached the floor of the House from the Committee on Ways and Means every member of the lower branch of Congress had his own little pet bear by the tail.

This is one of those years when the constituents are being heard from. Usually only organized groups make their views felt among the members of Congress. This time it is different. The mass of the home folks who pay the taxes are in a letter-writing mood also.

On the desk of every Senator and Representative are three piles of letters and telegrams. The first pile contains various pleas for relief appropriations. The second pile demands that a stop be put to what the writers term an extravagant waste of Government funds. The second pile comes from the individual tax payers at home. The third pile contains letters stating specifically the kind of taxes the writers do not want.

The result of these communications was that when the tax bill came in many members of the House who sincerely wanted to do the right thing were sorely puzzled to find out what the right thing was. Of course, there were the demagogues who did not care what they did so long as it made them votes. But in the majority were those who were sincerely puzzled.

This confused condition in the thought of the House made it easy for those who opposed the sales-tax provisions of the committee bill and those "soak-the-rich" advocates who demand taxes only on the larger incomes and on corporations to break up the program of the party leaders and defeat the committee bill.

After this was done and the bill was ordered revamped by the leaders such a storm of criticism of the House came from the daily press that the House sobered down and promptly passed the new bill.

In the meantime the whole temper of Congress appears to have crystallized into a decision to pass a tax bill because it is necessary and to keep appropriations down to a minimum.

From a condition of confused thought, a majority of both parties in both houses are settling down to the working out of something like a definite fiscal policy.

Because the present system of Federal taxation is based chiefly on business profits, a natural result of the business depression of the past two years was a falling off in the income received by the Government from those taxes on which it relies for its revenues.

Coincident with this reduction in revenues, or income, has been a rapid increase in Government expenditures, due, not only to keeping pace with the normal growth of the country, but also to large appropriations for various types of public works and relief made by Congress during the depression. The net result was that the Government found itself living beyond its income. Steadily increasing expenditures and steadily decreasing revenues brought about a deficit in the Treasury.

There were several ways that this situation could be met. The Government could continue its existing rate of expenditures and either issue bonds or increase taxes to bring in the necessary money, or it could cut down its costs of operation and issue bonds or raise taxes to meet the figure determined upon.

If the Government decided to issue bonds it would simply be borrowing money to pay its running expenses. The method would be to issue and sell in the open market interest-bearing bonds, redeemable at a given rate, and use the money to operate the Government. When the date for the redemption of the bonds came around, the Government would have to buy them back at their par value, plus the interest it owed the purchasers.

To issue bonds would mean that the Government was willing to increase its indebtedness to the public, to which it had already sold other bonds, and trust to an increase in the income it derives under the present taxes to produce the money to pay off its old and new bonds when those payments became due.

Another method would be to make an accurate calculation as to what the expenditures of the Government would be and then increase taxes to the point where the income would equal the calculated outgo. This method is what is known as balancing the budget and it is the method finally chosen by President Hoover and Secretary Mellon; it is the method Congress is attempting to put into effect in its preparation of the Revenue Bill of 1932.

Strictly speaking, the passage of the tax bill and the curtailment of Government expenses have nothing to do with each other. Whether the Government expenses are curtailed or not, more money must be raised because, under the existing tax laws owing to the falling off in general business, sufficient money to pay the operating expenses of the Government cannot be collected, it has been officially stated by the Secretary of the United States Treasury.

However, new taxation and an economy program are actually going hand in hand because not only the leaders of both parties in Congress but the rank and file as well, know that those who vote for additional taxes and also vote to keep up the high cost of Government stand a great chance of being defeated for election next November.

In the meantime the question of Government expenditures has been kept to the fore. President Hoover has been urging it at several meetings he has held with the Special Committee on Economy created by the House to recommend immediate legislation to this end.

On April 16 the President turned over to this committee the draft of a bill prepared by Administration officials at the President's direction embodying the Administration's specific recommendations for departmental reorganization to bring about economy. To put his desired economies into effect the President must receive authority from Congress.

It is expected that the Democratic House Economy Committee will accept some of the President's recommendations, but not all of them, and that it will report a substitute bill.

The recommendations contained in the President's bill which has become known as the "omnibus departmental bill," were described in the following statement issued at the White House on April 16.

## President Hoover's Economy Proposal

The omnibus bill for amendment to the various laws so as to permit reduction of Government expenses beyond those which can be effected by the Executive and the appropriations committees, should ultimately reduce expenditures by upwards of $225,000,000 and possibly $250,000,000.

The bill represents the drafting of matters discussed by the joint sessions of the Administration representatives and the House economy committee, not all the provisions being agreed upon by all the conferees, and one of the differences of view referring to the handling of Federal employe questions.

The following description of the effect of the "five-day week staggered furlough plan" in substitution for the "pay-cut plan" is given in reply to a great many telegraphic and other inquiries.

This plan provides for one year:

(1) Application of five-day week directly to per diem employes by eliminating the equivalent of Saturday half-day employment; that is 26 days furlough in the year without pay. The equivalent is reached wtih annual employes by one calendar month's furlough without pay, the month not necessarily to be continuous.

(2) Furlough to be mandatory and all holidays with pay are eliminated.

(3) The following groups are excepted: (a) All civil employes of income of $1,200 per annum and less, (b) the enlisted forces of the military services, (c) special cases in continuous services where suitable substitute cannot be provided and public interest forbids the absence of regular employes, (d) rural mail carriers in respect to whom it is provided that their vehicle allowances are eliminated in lieu of the shortened time, (e) in cases where the plan would reduce employes between $1,200 and $2,500 income below the prevailing income of comparable occupations outside of the Governmentt an adjustment to reduced compulsory furloughs is provided through appeal to the classification board.

The arguments in favor of the plan are:

(a) It establishes the principle of the five-day week in the Government.

(b) It maintains present scale of salaries, but each person takes holidays at his own expense.

(c) It is prorated to all officials, from Cabinet officers down to persons receiving $1,200 per annum, and provides against hardship to those receiving between $1,200 and $2,500.

(d) It provides a saving of $80,000,000 to $82,000,000 as against $67,000,000 on the straight pay-cut basis.

(e) With the cuts in departmental appropriations now under discussion in Congress, a number, possibly as many as 10,000 out of the million Government employes, will need to be discharged.

Under this plan, however, many substitutes will be required in the continuous services, which would enable the retention of these otherwise discharged employes, but beyond this it is estimated that from 25,000 to 35,000 further substitutes would be needed, thus contributing to reduce unemployment. Under the pay-cut plan the unemployment situation would not be met."

# An Analysis of America's Financial Situation

### Extracts from an article by Calvin Coolidge published in the Saturday Evening Post of March 26, 1932

ALMOST all units of government from the national treasury down are faced with a deficit. This comes at a time when many of them feel the necessity of enlarging relief expenditures. The result is a scramble for new means of raising revenue.

Some years ago it became apparent that tangible personal property and real estate were paying about all the taxes they could bear. To meet the cost of war, resort was had to very high income taxes, which were levied on the theory that those who had income could and must afford to make large contributions to public expenses. That seemed fair. With the increase in prosperity that the country enjoyed, large incomes increased rapidly, so that there was a great temptation to load more and more of the burden upon that source and release or disregard other and more stable sources of revenue. Now that large incomes have greatly diminished, something must be done in a hurry to pay the expenses of government.

This situation raises questions of extraordinary difficulty. It is evident there are but three things to be done—increase taxes, increase debt, or reduce expenses. Not much thought has been given to curbing the cost of government. Increasing the debt means borrowing money to meet current expenses, which leaves the treasury in the precarious position of having an unbalanced budget.

That is always demoralizing. It can be done to meet a temporary emergency or for a specific purpose, but to borrow to pay ordinary running expenses of a government breaks down public confidence and very soon destroys credit. Some of our municipalities are already dangerously near this position. While no one questions the credit of the United States, a violent decline in government bonds recently gave warning that there is a limit to the borrowing power even of the strongest treasury in the world. When people saw that the national receipts last year were but $3,317,000,000, and that $236,000,000 of that came from foreign-debt payment, which are now suspended; while the expenses were $4,220,000,000, a cold shiver went down the financial spine of the public. Last year a deficit of more than 21 per cent and this year a threatened deficit of about 40 per cent were not pleasant to contemplate.

That was the immediate, pressing and even dangerous situation that confronted the national treasury. Of course, we were a long ways from being unable to meet our obligations, but we were in urgent need of more revenue to pay current expenses. Our situation is aggravated by a great shrinkage in all values, so that there remains little if any surplus out of which increased taxes can be paid.

We may wonder why this is the case when we know that in the past eleven years we have had four permanent reductions and one temporary reduction of Federal taxes and, by paying off about $8,000,000,000 of the national debt, have made an annual saving of well over $300,000,000 in interest. But all the money saved in one place has been expended, with some more with it, in some other place, so that the total cost of the Federal Government for the last fiscal year was considerably in excess of what it was eight or nine years ago. It is this expansion in the area of governmental activities, with the accompanying expansion of expense, that is a large factor in the present treasury difficulties.

A short survey of what has been going on in our country in the way of increasing public expenses, taxes and debts will help us to a better comprehension of our problem and do much to point the way to a sound remedy.

The National Industrial Conference Board reports that in 1903 the national, state and local expenditures were $1,570,000,000, of which the local cost was $913,000,000. In 1913 the total was $2,919,000,000, of which the local cost was $1,844,000,000. In that decade the cost of municipal government was more than doubled, while national costs only rose from $475,000,000 to $692,000,000.

The next decade is complicated by the war costs, but these apply only so far as the national Government is concerned. Only a slight addition was caused by the war in the other two units. In 1923 the grand total had risen to $9,920,000,000. The national bill was $3,885,000,000, the state $1,242,000,000 and the local $4,793,000,000. But the next six years tell a threatening story. In 1929 national costs had advanced but a trifle, to $3,932,000,000, while state had risen to $1,990,000,000, and local to $7,126,000,000. The grand total had risen from $2,919,000,000 in 1913 to $13,048,000,000 in 1929. This was an advance in per capita cost from $30.24 to $107.37 in sixteen years. Yet the national per capita expenditure was reduced $2.47 in the last six years of this period. It should also be remembered that from 1919 to 1929 the national debt was reduced from $26,400,000,000 to $16,900,000,000, though it has increased since 1930. From these figures it is seen that the mounting cost of government has been due to the extravagance of nearly all the states and municipalities. Their expenses jumped from $2,227,000,000 to $9,116,000,000 in sixteen years. The average rate of increase was about 20 per cent each year. Of these stupendous sums, interest took $1,481,000,000, debt reduction $1,126,000,000, highways $1,936,000,000 and education $2,491,000,000 in 1928-29.

The only way to meet these costs of government is by taxes and debt. Both have increased enormously. In 1913 total taxes were $2,187,000,000, in 1923 they were $7,234,000,000 and in 1930 they were $10,251,000,000. In the last seven-year period the national figures rose from $3,032,000,000 to $3,468,000,000, the state figures rose from $917,000,000 to$1,765,000,000 and the local figures rose from $3,285,000,000 to $5,018,000,000. This took 6.4 per cent of the national income in 1913, which rose to 10.1 in 1923, and is estimated at 14.4 for 1930. For the same period the amount of tax per capita in-

creased from $22.66 to $83.21. The ordinary family of five persons, directly or indirectly, was therefore called upon to contribute on the average $416.05 yearly on the 1930 basis. As this usually fell entirely on the head of the family, the burden can be imagined.

High taxes are but a part of the story. In 1913 the total national, state and local government debt was $4,200,000,000. The state item was small, the national was but $1,000,000,000 and the local was $2,900,000,000. In 1922 the grand total had reached $30,200,000,000. But the encouraging feature of this exhibit was that the national debt had been decreased more than $2,500,000,000 since June 30, 1919, and was going down, while the discouraging disclosure was that the local debt had increased to $6,300,000,000 and was going up. In fact, in 1928, though the national debt had been decreased $5,400,000,000 in six years, the state and local debt had increased $5,400,000,000.

That is the picture brought down to the latest available records. It discloses a total debt of more than $30,000,000,000, total taxes of $10,251,000,000 and total expenditures of $13,048,000,000 yearly. This tax is about 3 per cent of the national wealth. Or to put it another way, the yearly outlay of the country is at the rate of about thirty dollars on each thousand dollars of property. Such a burden leaves capital without a fair return and comes dangerously near the line of a capital tax or confiscation.—*Extracts.*

AUTHOR'S NOTE—*The figures used in this article are substantially all from the publications of the Industrial Conference Board, the United States Department of Agriculture and the Committee on Public Relations of the Eastern Railroads, or have been furnished me by these bodies. I think they are comparatively correct. I know they are sufficiently accurate to illustrate the arguments.*

# The Significant Voice of the Tax Payer

### Extracts from an article by Mark Sullivan published in the Washington Star of April 10, 1932

As respects social and political consequences, this depression has taken the direction of a return to old-fashioned individualism. It is expressing itself all over the country in a determination of the farmer to hold on to his farm, of the home-owner to hold on to his home. The farmer and home-owner are defying the tax collector. More accurately, they are defying the tax layer, the tax eater—the officeholder.

This is the most obvious present political development in the United States. I dislike the overused word "significant," but there is no denying the plain meaning of this spirit. Wherever we start from, after this depression, and wherever we go to, we are going to build from the same old American basis of organized society—the farmer owning his farm and determined not to let the State take it away from him; the home-owner with the same determination.

So far the tax rebellion is perfectly orderly. It is taking things in time. It is demanding—and getting—reduction of cost of government, reduction of taxation. Because the rebellion has taken things in time, it may not be necessary to defy the tax collector. The reduction in cost of government, and the consequent reduction of taxes, is being brought about early enough to avoid any occasion for forcible resistance of the tax collector. But to any one who understands the present mood of the country, it is clear that forcible resistance will be practiced if it is necessary. The farmer is not going to let his farm be taken away from him, nor the home-owner his home. And they are not going to tolerate a new theory of society which includes State ownership of farms and everything else. All the preaching of that sort of thing is being emphatically rejected. America is turning straight back toward our earliest pioneer conception of society and property and individual self-sufficiency. This is going to make some highbrows sad, and it is going to defeat the predictions of a good many prophets of a new order. But the thing that America actually is doing is perfectly plain.

The East, and much of the country outside North Dakota, thinks of that State as having a tendency toward having the State carry on an increasing number of functions. That may or may not have been, some time ago. At present, North Dakota and the rest of the West is energetically engaged in trimming the State's feathers. In fact, North Dakota is one of the two States in which the determination to reduce the cost of government and reduce taxation has gone farthest, has been most successful. A letter from the editor of the Fargo, N. Dak., Forum conveys this information:

"This county, Cass, has 50 townships. In the annual meetings held during March these townships cut their taxation for next year by $57,000 out of a total of $127,000—a cut of 45 per cent. The fact that this was done in the townships has especial meaning. It is a beginning of something to follow, for the townships are the first to set up their budgets for the coming tax year. After the townships will come the villages, the school districts, the cities, the park boards and the counties, and then the State.

"Our North Dakota taxpayers' association has initiated five measures to be voted on in June: two are to cut mileage allowances to State and county officials; two are to cut the salaries of State and county officials a straight 20 per cent. Lastly, and most important, one measure orders the reduction of property values for tax purposes from 75 per cent to 50 per cent of their actual value.

This latter has the direct purpose of literally compelling the various units of government to reduce taxes."

In short, what is going on in North Dakota is to reduce taxes first. The people are taking hold of the situation. What happens in most States is that the people wait and hope and plead that the State Legislature will reduce taxes. The people of North Dakota, taking advantage of their initiative law, are going to reduce taxes by their own action first. Thereafter the office-holders will have to make a budget to fit the taxes. If the measure passes, a special session of the Legislature may be required to reduce costs of government. As to that, the North Dakota taxpayer does not care. He is, by cooperative action through the ballot, reducing his own taxes. He is saying—not letting the officeholders say—how much of his property he is willing to contribute toward the cost of government, and, speaking generally, he proposes to contribute a third less than he has been contributing.

In any event, the way to prevent tax rebellion is to reduce taxes, and do it first. And the way to reduce taxes is to cut the cost of government. That may mean getting along without some frills of government which the officeholders have introduced in recent years. It may be pleasant to have these frills, but we can live without them. And which is the more deplorable sight—to drop the frills or to turn home-owners out of their homes, farmers off their farms?

Schools, especially rural ones, have been made more costly than the farmer can bear. I have been told of one community in the West where, in the flush times a few years ago, a large, expensive school building of the type called "consolidated" was erected—which is attended by only 30 pupils. The local township politicians brought about the building of the school. They introduced the new and expensive device of busses to carry the pupils to school. The little local politicians gave themselves the jobs of bus driver and other small jobs.

Incidentally, one wonders about this innovation of carrying children to school at the expense of the State! Is it possible a boy who walked to an old-fashioned one-room country school may have come with a better spirit for educcation than one who is picked up and carried there at State expense?

We are realizing what was always true, what we used to realize 30 years ago, but what we forgot in the flush times that came between. Government is always run by office-holders. Politics is always run by office-holders. For a good many years we have been willing to let them do it, for two reasons. First, we were all making a good deal of money and did not mind paying the bill. Second, the salaries which the office-holders paid themselves were relatively low and did not excite the envy of any voters. Now a good many voters see the office-holders having jobs which are well paid compared to present standards in private industry, and which also have the advantage of permanence.

The result of all of which is that the "outs" are after the "ins" and propose to get 'em. That is, the "outs" who want the jobs are after the "ins" who have them; and the "outs" are assisted by taxpayers such as farmers, who do not want the jobs, but who are tired of paying the bill. Politicians in office, of both parties, are on the run everywhere.—*Extracts.*

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# How a Federal Tax is Levied and Collected

It is the duty of the President, under the provisions of the Constitution, to keep watch over the revenues and expenditures of the Government. This he does through the Treasury, it being the task of the Secretary of the Treasury to collect all revenues and to make all payments of Government funds.

All collections of revenues are made by the Treasury. Customs duties imposed on foreign goods are collected by the Bureau of Customs, while domestic taxes imposed on the American people are collected by the Bureau of Internal Revenue, both being part of the Treasury.

Consequently, when there is a lack of balance between the revenues derived from taxes and customs receipts, the two sources of Government income, and the amount of money necessary to defray the expenses of the Government, it is the duty of the Secretary of the Treasury to notify the President and the duty of the President to notify the Congress.

The reason for this is that the President has no power to impose taxes nor to raise or lower them. This power is vested in the Congress alone, and, furthermore, all bills for raising revenue must originate in the House of Representatives.

Under the provisions of the existing tariff law the President has been given the power by Congress to raise or lower tariff rates on imports within set limits; but this power does not extend to domestic taxes.

When the President notifies the Congress that additional revenues are needed to defray the expenses of the Government he sometimes sends, with that notification, not only the estimate of the amount of revenue needed but also recommendations from the Secretary of the Treasury as to what sort of taxes Congress should, in his opinion, levy in order to produce the requisite amount of income.

Congress may or may not follow the recommendations of the Secretary of the Treasury. When the Administration and the majority in Congress are of the same political party, the recommendations of the Secretary are usually followed, but not always.

All Federal tax legislation is prepared by the House Committee on Ways and Means. Members of the House may and do introduce individual bills to levy taxes, but these bills are all referred to the Committee on Ways and Means.

Before framing a bill for report to the House, the committee invariably holds hearings. As a rule, the first person to appear at these hearings is the Secretary or the Undersecretary of the Treasury, who gives the committee a detailed report on the status of the Treasury—how much income it has in prospect and how much money it is obligated to pay out.

The Secretary or the Undersecretary of the Treasury and the Collector of Internal Revenue and the Collector of Customs, both Treasury officials, are frequently invited to appear at the committee hearings to answer detailed questions.

Opponents of the Administration proposals or proposals offered by the members of the House are also heard by the Ways and Means Committee before it goes to work to draft the bill. When the bill is finally drafted and approved by a majority of the committee it is introduced in the House by the chairman of the committee. It is referred to the committee and immediately (usually on the day following its introduction) is reported to the House by the committee, usually accompanied by a written report.

A House Resolution is usually introduced and adopted, fixing a date on which consideration of the bill shall begin. This resolution usually fixes a limit on the amount of time to be given to debate. The floor leaders of the two major political parties agree on a division of the time allotted for debate.

The control of the time is usually in the hands of the chairman of the Committee on Ways and Means for the majority party, and the ranking minority member of the committeee for the minority party.

If a member desires to speak for the bill he must obtain time from the committee chairman. If he desires to speak against it, he must obtain time from the ranking minority member of the committee or whoever happens to be in charge of the opposition.

The chairman of the Committee on Ways and Means opens the debate with an explanation of the provisions of the bill and of the reasons that guided the committee in the framing of the bill. Upon the completion of his opening statement, the committee chairman is subjected to questions from both sides. When he finishes, the chairman yields various periods of time, ranging from five-minute periods up, to those members on his list who desire to speak in favor of the bill. Before exhausting all the time allotted to him, the chairman yields the floor to the opponents, thus reserving some of his own time for rebuttal. At the conclusion of general debate, the bill is taken up and voted on, section by section. It is at this point that amendments are offered and voted on.

When the bill is finally passed, amended or unamended as the case may be, it goes to the Senate and is referred to the Senate Committee on Finance. Usually by this time Senators are ready with amendments to the bill. These are introduced in the Senate, printed in bill form and referred to the Finance Committee. This committee usually holds hearings and, upon their completion, reports the bill to the Senate. Almost invariably the bill as passed by the House is amended by the Senate. Sometimes it is amended only slightly and at other times it is almost rewritten.

After it has been subjected to general debate on the floor of the Senate, amendments are offered on the floor to be accepted or rejected by vote of the Senate. When the bill is finally passed by the Senate, it goes to the House. If it has been so amended as to be unacceptable to the House, the House votes to disagree to the Senate amendments and asks for a conference.

The Senate agrees to a conference and conferees are appointed by the presiding officer of each body. The House conferees are appointed from the membership of the Committee on Ways and Means and the Senate conferees from the membership of the Committee on Finance. The majority in each house has a majority of the conferees of that house. The conferees of each house vote as a unit. Thus, if each house has five conferees, three belong to the majority party and two to the minority party. If the majority of three agree to a certain provision of the bill, the two minority members have to join the majority members in the stand they take. The conferees must consider the bill as it is and may not add provisions that were not in the bill as passed by the House or put into the bill as passed by the Senate.

When the conferees have come to an agreement, which is usually after compromises have been made, they report back to their respective houses. If the conference agreement is suitable to a majority of both houses, it is accepted. If not, the bill is sent back to conference for further consideration until a report is made that both houses will accept. This acceptance by a vote of both houses means the passage of the bill and it is then sent to the President for signature.

After a tax bill becomes a law, by being signed by the President, the administration of the law is turned over to the Treasury Department, where it is administered, in the case of internal taxes, by the Internal Revenue Bureau, and in the case of taxes or tariffs on imports, by the Customs Bureau.

## Work of The Bureau of Internal Revenue

The Commissioner of Internal Revenue has general supervision of the assessment and collection of all internal-revenue taxes; the enforcement of internal revenue laws; and the preparation and distribution of instructions, regulations, forms, blanks, stamps, etc. An annual report to the Secretary of the Treasury covering the activities of this service is made by the commissioner.

For the purpose of efficient and effective administration of the internal revenue laws the duties of the bureau are assigned to various units as follows: Commissioner and miscellaneous unit, income-tax unit, miscellaneous tax unit, accounts and collections unit, general counsel's office.

The commissioner and miscellaneous unit includes the immediate office of the Commissioner of Internal Revenue and his assistant, the office of the special deputy commissioner, the intelligence unit, appointment division, administrative division, special advisory committee, and

public relations division. It makes details of personnel to offices outside of the bureau.

The income-tax unit is the agency of the Bureau of Internal Revenue for administering the income and profits tax provisions of the revenue laws. Its duties are to prepare regulations for the administration of such provisions; to receive, audit, and verify the returns covering such taxes; to review and dispose of claims for refund, and to compile statistics from these returns.

The miscellaneous tax unit is charged with the administration of the law in respect to all internal-revenue taxes except income and profits taxes, and is also responsible for adjusting and closing cases involving repealed miscellaneous internal-revenue taxes.

The accounts and collections unit is charged with the administration of matters having to do with the organization and management of the offices of collectors of internal revenue, including their field forces; with the administrative audit of revenue and disbursing accounts of collectors of internal revenue and of the disbursing accounts of disbursing agents in the Internal Revenue Bureau and Service. It also issues stamps to collectors of internal revenue.

The general counsel's office is the legal branch of the bureau. Its functions are separated into six divisions, as follows: Interpretative division, civil division, penal division, appeals division, administrative division, review division.

There are two main divisions of the field service, the collection service and the field audit service.

In addition there are the following traveling forces operating from Washington: Intelligence agents and supervisors of accounts and collections, miscellaneous and sales tax agents, and field representatives of the general counsel's office.

## Work of the Customs Service

The Customs Service was created by the First Congress in the act of July 31, 1789, but its present status dates from the act approved March 3, 1927. Under the authority of that act the Secretary of the Treasury has conferred upon the commissioner, subject to the general supervision and direction of the Secretary, the powers and duties in respect of the importation or entry of merchandise into or the exportation of merchandise from the United States, vested in or imposed upon the Secretary of the Treasury by the tariff act of 1930, subject to certain exceptions. These exceptions require the approval of the Secretary of regulations and certain classes of decisions prepared by the commissioner.

The principal function of the service is the collection of import duties; incident to this is the prevention of smuggling, including the smuggling of alcoholic beverages, the entrance of which is prohibited under the prohibition amendment. The customs agency service which operates as a part of the Customs Service is an investigative service.

The Customs Service also cooperates with other services in the Treasury and other executive departments in the enforcement of the preventative, sanitary, and other laws under their administration relating principally to articles brought to this country and in some cases to articles sent out of the country.

# Present Sources of Federal Revenues

***Editor's Note:***

The following list of taxes, taken from a summary prepared by the Treasury Department, omits various taxes that are either penalty taxes or taxes which produce only a meager return and which are, therefore, never counted on by the Treasury as producers of actual revenue.

The taxes given below are those now in operation to bring in the money used to defray the expenses of the Federal Government.

***Admission Tax.***

*Basis of tax.* Admissions to any place, not specifically exempt.

*Measure of tax.* Admissions in excess of $3. Admissions to prize fights of $5 or more. Charges in excess of established price. Permanent use of, or lease for, boxes or seats in places of amusement: for each performance or exhibition at which the box or seat is used or reserved for the lessee or holder. Admissions to roof gardens, cabarets, or similar entertainments in excess of 50c (20% of amount paid for refreshments, service, or merchandise considered admissions).

*Rate of tax.* 1 cent on each 10 cents or fraction thereof. 25 per cent. 5 to 50% of excess charge, according to place of sale and amount of excess charge. 10% of the amount for which a similar box or seat is sold.. 1½ cents for each 10 cents, or fraction thereof. (Rev. Act of 1928).

***Customs Duties.***

*Basis of tax.* Importation of articles into the United States as specified in the Tariff Act.

*Measure of tax.* Value and/or quantity.

*Rate of tax.* Various, listed by schedules in Tariff Act. (Act of June 17, 1930.)

***Distilled Spirits.***

*Basis of tax.* Distilled spirits in bond, manufactured or imported.

*Measure of tax.* Per proof or wine gallon or fraction thereof.

*Rate of tax.* $1.10 and proportionate tax on fractional parts. (Revenue Act of 1926.)

***Dues.***

*Basis of tax.* Annual dues or membership fees and initiation fees to any social, athletic or sporting club or organization.

*Measure of tax.* Annual dues in excess of $25; initiation fees in excess of $10 or when annual dues in excess of $25.

*Rate of tax.* 10 per cent. (Rev. Act of 1928 and of 1926.)

***Estate Tax.***

*Basis of tax.* Transfer of estates of resident and non-resident decedents.

*Measure of tax.* Value of gross estates less deductions, and specific exemption as defined by law.

*Rate of tax.* Graduated 1 to 20 per cent with credit for State inheritance taxes paid, not exceeding 80 per cent of Federal tax. (Rev. Act of 1928 and of 1926.)

***Income Tax, (Corporation).***

*Basis of tax.* Net income of foreign and domestic corporations.

*Measure of tax.* Net income in excess of exemptions, as defined by law.

*Rate of tax.* 12 per cent on net incomes in excess of credit. (Rev. Act of 1928.)

***Income Tax (Individual).***

*Basis of tax.* Net income of individuals, citizens and residents of the United States, of estates and trusts, and of non-resident aliens.

*Measure of tax.* Net income in excess of exemptions, as defined by law.

*Rate of tax.* Normal tax rates 1½-5 per cent on net income exempt from normal tax and after personal exemptions and credits for dependents; sur tax rates, 1-20 per cent on net income in excess of $10,000; special rate 12½ per cent on capital net gains as defined by law, and tax credits for earned income and capital net losses, as defined by law. (Rev. Act of 1928.)

***Stamp Taxes (Bond of Indebtedness).***

*Basis of tax.* Bonds, debentures or certificates of indebtedness, etc., issued by any corporation and corporate securities with interest coupons or in registered form.

*Measure of tax.* Each $100 of face value or fraction thereof

*Rate of tax.* 5 cents. (Rev. Act of 1928 and 1926.)

***Stamp Taxes (Capital Stock, Issue).***

*Basis of tax.* Each original issue, whether on organization or reorganization, of certificates of stock, profits, interest in property or accumulation.

*Measure of tax.* Each $100 face value or fraction thereof. Without face value: a. Actual value less than $100. b. Actual value more than $100.

*Rate of tax.* 5 cents. 1 cent on each $20 or fraction thereof. 5 cents on each $100 or fraction thereof. (Revenue Act of 1928 and of 1926.)

***Stamp Taxes (Capital Stock, Sales or Transfers).***

*Basis of tax.* Sales, agreements to sell, memoranda of sales, transfers of legal title to shares, certificates of stock, etc.

*Measure of tax.* Each $100 of face value or fraction thereof. No face value.

*Rate of tax.* 2 cents. 2 cents per share. (Rev. Act of 1928 and of 1926.)

***Stamp Tax (Produce, Sales of, on Exchange).***

*Basis of tax.* Sales, agreements of sale or to sell any products or merchandise on exchange, board of trade or similar place for future delivery.

*Measure of tax.* Each $100 or fraction thereof..

*Rate of tax.* 1 cent. (Rev. Act of 1928 and of 1926.)

***Stamp Taxes (Passage Tickets).***

*Basis of tax.* Passage tickets sold or issued in the United States for passage by vessel to any place not in the United States, Canada, Mexico or Cuba.

*Measure of tax.* Tickets costing more than $10, according to price.

*Rate of tax.* $1 to $5. (Rev. Act of 1928 and of 1926.)

***Stamp Taxes (Playing Cards).***

*Basis of tax.* Playing cards manufactured or imported, and sold or removed for consumption or sale.

*Measure of tax.* Per pack containing not more than 54 cards.

*Rate of tax.* 10 cents. (Rev. Act of 1928 and of 1926.)

***Stamp Taxes (Foreign Insurance Policies on Property).***

*Basis of tax.* Policies issued by foreign companies to, or for, or in name of domestic corporation or partnership or individual resident of the United States when not signed or countersigned as specified by law.

*Measure of tax.* On each $1 or fractional part thereof of premium charged.

*Rate of tax.* 3 cents. (Rev. Act of 1928 and of 1926.)

***Tobacco Taxes (Cigars).***

*Basis of tax.* Manufactured or imported into the United States and sold or removed for consumption or sale.

*Measure of tax.* Weighing not more than 3 lbs., per thousand. Weighing more than 3 lbs., per thousand according to retail price.

*Rate of tax.* 75 cents. $2 to $13.50. (Rev. Act of 1926.)

***Tobacco Taxes (Cigarettes).***

*Basis of tax.* Manufactured or imported into the United States and sold or removed for consumption or sale.

*Measure of tax.* Weighing not more than 3 lbs. per thousand. Weighing more than 3 lbs. per thousand.

*Rate of tax.* $3. $7.20. (Rev. Act of 1926.)

***Tobacco Taxes (Manufactured Tobacco and Snuff).***

*Basis of tax.* Manufactured or imported into the United States and sold or removed for consumption or sale.

*Measure of tax.* Per pound.

*Rate of tax.* 18 cents. (Rev. Act of 1926.)

***Tobacco Taxes (Cigarette Paper).***

*Basis of tax.* Cigarette paper made into packages, books, sets, or tubes, made up in or imported into the United States and sold or removed for consumption or sale.

*Measure of tax.* Per package, book or set, according to number of papers. Per 50 tubes or fraction thereof.

*Rate of tax.* ½ of one cent per 50 papers or fraction thereof. 1 cent per 50 tubes or fraction thereof. (Rev. Act of 1926.)

***Tonnage Tax.***

*Basis of tax.* Entry of vessel from foreign port.

*Measure of tax.* Net tonnage.

*Rate of tax.* 2 cents and 6 cents per net ton, not to exceed in the aggregate 10 cents and 30 cents, respectively, in any one year. (U. S. Nav. laws.)

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## Internal Revenue Receipts Under Present Law

| | 1931 (Actual) | 1932 (Estimated, Feb. 9, 1932) | 1933 |
|---|---|---|---|
| | | *(In millions of dollars)* | |
| **Income Taxes:** | | | |
| Current corporation | 892 | 517 | 382 |
| Current individual— | | | |
| Normal tax less earned income credit | 124 | 82 | 67 |
| Surtax | 447 | 234 | 208 |
| 12½ per cent tax on gains less 12½ per cent tax credit on losses from sale of capital assets held more than two years. | 159 | 23 | .. |
| *Total* current individual | 730 | 339 | 275 |
| Back taxes | 238 | 220 | 210 |
| *Total* income taxes | 1,860 | 1,076 | 867 |
| **Miscellaneous Internal Revenue:** | | | |
| Estate tax | 48 | 55 | 45 |
| Alcoholic spirits, etc. | 10 | 10 | 10 |
| Tobacco taxes | 444 | 410 | 434 |
| Admissions and dues | 14 | 14 | 15 |
| Stamp taxes, including playing cards | 47 | 34 | 43 |
| Oleomargarine, process butter, etc. | 3 | 2 | 2 |
| Miscellaneous, including narcotic taxes, delinquent taxes under repealed laws, etc. | 2 | 1 | 1 |
| *Total* misc. internal revenue | 568 | 526 | 550 |
| **Total Internal Revenue** | 2,428 | 1,602 | 1,417 |

# Action Taken by Congress on New Tax Bill

**1931**

*December* 6, President Hoover, in his annual message to Congress stated that increased taxation would be necessary to meet the cost of Government.

*December* 7, the Secretary of the Treasury, in his annual report to Congress, presented figures showing that the ordinary expenses of the Government expenditures were in excess of the ordinary receipts for the first time in 10 years.

Many bills proposing various types of taxes were introduced in the House at the opening of the session and were referred to the Committe on Ways and Means.

**1932**

*January* 13, the House Committee began hearings on the tax bill with Secretary of the Treasury Mellon being the first witness. The hearings continued until February 4, more than 100 witnesses being heard.

*February* 5, the committee began holding executive sessions to frame the bill.

*March* 8, the bill (H. R. 10236) was reported to the House.

*March* 10, the bill was taken up in the House for general debate. The bill was so materially amended on the floor of the House as to be practically re-written.

*April* 1, the bill was finally passed and upon reaching the Senate, was referred to the Committee on Finance.

*April* 6, the Committee on Finance began holding hearings on the bill.

## New Tax Bill as Passed by House

| | (Millions of dollars) | |
|---|---|---|
| **Title I÷Income Tax:** | | |
| *Individual income tax—* | | |
| H. R. 10236, as introduced | 112 | |
| Amendment increasing highest normal rate to 7% | 3 | |
| Additional surtax brackets, beginnning $6,000 | 7 | |
| Dividends subject to normal tax | 89 | |
| *Total* | | 211.0 |
| *Corporation income tax—* | | |
| H. R. 10236, as introduced | 21 | |
| Reduction in exemption from 2 to $1,000 | 6 | |
| Further increase in rate, 13% to 13½% | 8.4 | |
| Additional increase in rate from 13½% to 15% for consolidated returns | 8.0 | |
| *Total* | | 43.4 |
| *Other income tax changes,* (administrative)— | | |
| H. R. 10236 (administrative changes in bill as introduced) | 100 | |
| Repeal of net loss provisions | 7 | |
| Dividends (Section 115 b) | 6 | |
| Dividends (Section 115 d) | 2 | |
| Revision of depletion allowance | 1 | |
| Dividends, tax on foreign corporations and non resident aliens | 3 | |
| *Total* | | 119.0 |
| **Title II÷Additional Estate Tax** (H. R. 10236, as amended) | | 20.0(1) |
| **Title III÷Gift Tax** (H. R. 10236, as amended) | | 5.0(2) |
| **Title IV÷Manufacturers' Excise Tax:** | | |
| Lubricating oils (4c per gallon) | 35 | |
| Brewer's wort and malt, 5c and 35c per gallon, grape concentrates (40%) | 46 | |
| Imported gasoline, fuel oil, etc. (1c per gallon) | 5 | |
| Imported coal ($2 per ton) | .5 | |
| Toilet preparations (10% m'f'rs' sales) | 20 | |
| Furs (10% manufacturers' sales) | 15 | |
| Jewelry (10% manufacturers' sales) | 15 | |
| Passenger automobiles (3% m'f'rs' sales) | 44 | |
| Trucks (2% manufacturers' sales) | 4 | |
| Accessories (1% manufacturers' sales) | 8 | |
| Yachts, motor boats, etc. (above $15 value, 10%) | .5 | |
| Radio and phonograph equipment and accessories (5% manufacturers' sales) | 11 | |
| Mechanical refrigerators (5% manufacturers' sales) | 6 | |
| Sporting goods and cameras (10% manufacturers' sales) | 6.5 | |
| Firearms and shells (10% m'f'rs' sales) | 2.5 | |
| Matches (4 cents per 1,000) | 11 | |
| Candy (5% manufacturers' sales) | 12 | |
| Chewing gum (5% manufacturers' sales) | 3 | |
| Soft drinks (basis 1921 act) | 10 | |
| *Total* | | 255.0 |
| **Title V÷Miscellaneous Taxes:** | | |
| Part I—Telephone, telegraph messages, etc., except newspapers (5c on messages costing 31c to 49c and 10c on messages costing 50c or more) | 33 | |
| Part II—Admissions (1c for each 10c over 45c) | 40 | |
| Part III—Stamp taxes— | | |
| Issues of bonds and capital stock, etc. (10c per $100) | 8 | |
| Transfer of stocks, etc. (4c per $100 par value or 4c per share no par, but not less than ¼ of 1%, 4 cents to apply to loans of stock) | 70 | |
| Transfer of bonds, etc. (2c on each $100 par value but not less than ⅛ of 1%) | 25 | |
| Conveyances (50c on $100—$500, 50c per $500 in excess) | 10 | |
| Sales of produce for future delivery (5c per $100) | 6 | |
| Part IV—Oil transported by pipe line (8% of charge) | 20 | |
| Part V—Leases of safety deposit boxes (10% of rental) | 1 | |
| *Total* | | 213.0 |
| *Total additional taxes* | | 866.4 |
| **Title VIII÷Increased Postage Rates, etc.** (estimate of the Committee on Ways and Means) | | 165.5(3) |
| *Total* | | 1,031.9 |
| ***Required to Balance Budget (excluding debt retirement)*** | | 1,241.0 |
| ***Surplus*** (+), ***Deficit*** (—) | | —209.1 |

(1) *Assuming collections beginning May 1, 1931.*
(2) *Assuming tax effective beginning July 1, 1932.*
(3) *Includes estimated effect on budget of H. R. 10236 and of other bills recently passed by the House.*

PRO

# Does the Credit of
# Depend on a Bal

**In the Pros and Cons on the Revenue sion to the problem of balancing the Feder Excise Tax or Sales Tax. All other points at Income, Inheritance, Gift and Corporation or have been contained in other tax bills. fundamental fiscal policy. The sales tax, al to the fore and will receive renewed discu the Senate.**

## by Hon. Andrew W. Mellon

A FUNDAMENTAL thought which I wish to present is that current receipts and expenditures of the Government should be brought into balance for the next fiscal year beginning with the coming July, so as to put an end at that time to any further increase in the public debt. This is essential not merely for maintaining unimpaired the credit of the Government, but also for reinvigorating the entire credit structure of the country.

The greater part of the present fiscal year has already elapsed and it is impossible to avoid a large deficit for this year. To cover, for the balance of this fiscal year, all expenditures already authorized and appropriated for, as well as those called for by the administration's special emergency relief program, will probably require increase in the public debt by $1,500,000,000, less any amounts to be derived in the current year through additional taxation. The administration is determined, with your cooperation, to arrest this borrowing process on June 30 next. I am confident that the attainment of this objective will have the full support of Congress.

Under existing conditions the task of bringing our Budget into balance is by no means an easy one, and involves not only self-denial but some measure of sacrifice. Yet, it is possible to attain this objective if we address ourselves resolutely to the task of drastically reducing expenditures, refusing to take on additional obligations save those that are absolutely necessary, and by drawing on available resources through increased taxation.

I cannot overemphasize the importance of retrenchment. Without real economy there can be no balanced Budget. We are fully justified in calling on the people to make further sacrifice in order to supply their Government with adequate revenue, but we are only justified in making this call if at the same time we eliminate every unnecessary expenditure and see to it that just as enforced rigid economy prevails in every home in the land, so must it be observed in every operation of the Federal Government.—*Extracts, see 4, p. 160.*

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## by Hon. Ogden L. Mills

THE revenue for the fiscal year 1932-33 under existing laws, it is estimated, will amount to $2,375,000,000. Expenditures, likewise under existing laws, are estimated at $4,113,000,000. Thus the prospective deficit amounts to $1,738,000,000. If we exclude sinking fund requirements, the amount needed to balance the budget in the sense that current expenditures will be covered by adequate receipts, and that there will be no increase in the public debt, is $1,241,000,000. This must be obtained through decreased expenditures and increased taxes.

The Treasury's position is that the budget must be balanced in the sense above described. There is no need of my presenting the compelling and unanswerable arguments in favor of a balanced budget. It is essential to preserve unimpaired the credit of the United States Government. Bring that credit into question and our present difficulties, great as they are, become infinitely greater. . New dangers and evils will appear and recovery will be indefinately prolonged. The House has declared its determination to balance the budget. I am confident the Treasury Department will have the support and cooperation of the Senate in maintaining the finances of our Government on a sound basis.

The House proposes to balance the budget by raising, according to our estimates, $1,030,000,000 in additional revenue and by reducing expenditures by $200,000,000 in addition to those reductions already provided for in the annual budget submitted to the Congress in December. The Treasury Department urges the necessity of reducing expenditures. When asked to assume an enormously heavy tax burden the people are entitled to have the cost of Government reduced to a minimum and every expenditure not essential to the proper functioning of Government eliminated. I need not point out that to accomplish any such reduction as $200,000,000 in expenditures will require amendments to existing law relieving the departments and independent establishments of obligations now existing. This is one of the essential tasks which confronts the executive and legislative branches of the Government. It is a fundamental and indispensable element in our program. The more you examine the difficulties of raising adequate revenue, the more you will appreciate the compelling necessity of reducing the cost of Government.

The causes which have led up to our present critical situation are well known. Our expenses in the fiscal year 1933, including sinking fund requirements, are estimated at $4,113,000,000, as compared with $3,994,000,000 in 1930; whereas under existing law our revenues in the next fiscal year are estimated as $2,375,000,000, as compared with $4,178,000,000 in 1930. It is apparent that our budgetry problem arises from a collapse in our revenue collections due to the business depression acting directly on a tax system particularly sensitive to business fluctuations.—*Extracts, see 8, p. 160.*

*Continued on page 140*

the United States ... CON

anced Budget?

**Bill of 1932 the Digest confines the discus-**
**al Budget and the proposed Manufacturers**
**issue in the pending legislation involve the**
**Taxes, which have frequently been discussed**
**The question of a balanced budget is one of**
**though defeated in the House, is still much**
**ssion when the pending revenue bill reaches**

## by U. S. Representative Flannagan

WHAT necessity drives us to balance the Budget this year? Did not the same necessity exist in 1931 when the deficit was $903,000,000? Did not the same necessity exist in 1932 when the deficit was $1,711,.000,000? The only necessity I have heard of is the fact that Government bonds are selling below par. Have they not been selling for some time below par? But even if they only recently went down below par, why should that be such a compelling necessity as to drive us to saddle upon the American taxpayers, who are already groaning under the onerous burden of taxation, this additional burden?

Probably 5 per cent of our people own Government bonds. This 5 per cent will, of course, be benefited if bonds go back to par. But in order to put them back to par—in order to favor the few who are so fortunate as to own bonds—shall we crush under the oppressive heel of taxation the other 95 per cent of our population? Let me tell you that the 5 per cent in this country who own bonds are not the real sufferers. The real sufferers are the 95 per cent who never owned bonds, or who have been forced to sell them if they did own them, and who are, many of them, in dire need for the bare necessities of life.

How did we meet the situation in 1931? In 1931 we had a deficit of $903,000,000, and that deficit was not caused primarily, as some would have you believe, by "a drastic reduction in the yield of the income tax traceable entirely to the present depression." Our tariff tax in 1931, due primarily to our prohibitive tariff, fell off $209,000,000, and our Republican friends, who had charge of every branch of our Government, increased the expenses of Government $225,000,000. These two items alone amount to $434,000,000, and account for nearly one-half of the deficit.

If our Republican friends, knowing that times were hard and the day for retrenchment had arrived, had reduced governmental expenses instead of increasing them, and the Hawley-Smoot tariff bill had not worked such havoc with our foreign trade, our deficit for 1932 would have been negligible. Well, what did we do? Did we increase taxes in order to raise revenue to take care of the Budget? No; we simply issued bonds to take care of the deficit. We allowed the people to carry the deficit by paying interest thereon, and the Government, you know, is always able to obtain the lowest rate of interest.

How did we meet the situation in 1932? Our deficit in 1932 was $1,711,000,000, and I want to tell you that our deficit for that year was not caused, as some would have you believe, altogether by the falling off of our income-tax receipts. In 1931 we collected in principal and interest on our foreign debt $236,062,755.75. In 1932, knowing that we had a deficit, we declared a moratorium and thereby lost $254,000,000, that should have been collected and paid on our deficit. Then, too, in 1932, our Republican friends continued the reckless course they had pursued in 1931, and again increased our expenses of Government in round numbers $263,000,000. Thus you see that over one-half billion dollars of the deficit of 1932 was caused by the moratorium and the increase in the expenses of Government.

In the face of such a record, I ask, will anyone hereafter have the face to say that the Republican party is the only party fit to run this Government?

But to get back to the deficit of 1932. What did we do to balance the Budget? Why, our friends on the other side simply balanced it like they did in 1931 by issuing bonds.

If my friends on the other side plead necessity I answer that the same necessity existed in 1931. Why did not you balance it then? The same necessity existed in 1932. Why did not you balance it then? If good business demands the Budget to be balanced in 1933, the same good business should have demanded a balanced Budget in 1931 and 1932.

Oh, but you say we cannot afford to let the Budget remain unbalanced indefinitely. I agree with you. But let me remind you of the fact that our people will be in better shape after this depression to pay $10 than they are today to pay $1. The necessity, as I see it, in connection with balancing the Budget, is the necessity of putting the matter off until the people are in better shape financially to assume additional tax burdens. Certainly they are in no shape to assume them today. Then they tell us we cannot go on without balancing our Budget, because it will destroy our Government. In reply I say we cannot levy more taxes without destroying our people, and when you destroy the American taxpayer you destroy the American Government.

Why, just a short time ago, in disregard of our Budget, and in order to help the foreign nations straighten their financial matters out and balance their budgets, we saw fit to forego immediate payment of the debts due us by the foreign powers and spread the payments out over a period of 62 years. And during this session of Congress we became so solicitous of the welfare of the foreign powers, that we, in order to help them balance their budgets, and in utter disregard of the condition of our own Budget, granted them a moratorium. Well, if anyone needs a moratorium today it is the American taxpayer, and I for one stand here and demand that he be shown

*Continued on page 141*

PRO

## by U. S. Representative Crisp

It is conceded that there is a deficit for 1933 of $1,241,-000,000. Some believe we should not attempt to balance the Budget but should continue to sell bonds or issue greenbacks. I am tolerant of anybody who differs with me. That is their right. I may be wrong. They may be right. Surely and certainly I have no criticism of or quarrel with anyone who differs with me. However, I desire to give my views as to why that is an erroneous policy and why the Budget should be balanced.

At the end of the fiscal year 1931 the United States had spent $903,000,000 more than its receipts, and that amount was added to the national debt. At the end of the fiscal year 1932 there will be over $2,400,000,000 more added to the national debt. Not only must the taxpayers be taxed to pay the principal of these colossal sums, but they must pay taxes over a period of many years to pay the interest on it; and the interest, even at 4 per cent, on $1,000,000,000 is $40,000,000 a year, which the taxpayers must carry to pay the interest on these bonds during the time which they run.

Some of the United States bonds today are selling as low as 90 cents on the dollar. In my humble opinion, no individual, no corporation, no government can continue to run and maintain its credit by from year to year spending more than its receipts.

The United States Government may get by one year or two years, but if Congress does not face this responsibility and balance the Budget for 1933, the financial world, the entire world will become frightened as to the stability of the United States credit. Bonds will further depreciate, and when United States bonds depreciate, all industrial stocks and bonds and lands and everything else depreciates, and the Government, of necessity, will be required to pay higher rates of interest, thereby entailing additional burdens upon the taxpayers.

Some of my friends advocate the issuing of greenbacks. The United States Government during the sixties issued $449,000,000 of greenbacks, supported by 40 per cent gold reserve, and in 1864 they sold as low as 43 cents on the dollar. In 1865 they sold as low as 46 cents on the dollar.

The only good money the United States can have is that collected from the people in the form of taxes. The United States Government cannot run a printing press and print money and make it good. It will fluctuate in value, be uncertain, and will affect every industry in the United States. Germany, France, and Italy tried that experiment a few years ago, with great economic havoc. A few years ago for 25 cents of our money one could buy a million dollars' worth of German marks. We cannot follow that policy and maintain the financial stability and credit of the United States. If that is possible, why not run the printing presses and pay off all of the bonded indebtedness of the United States and stop paying interest on it? I repeat, in my honest judgment, the only good money a government can get is from taxes.

In my opinion the Budget must be balanced, and unless it is balanced the Reconstruction Finance Corporation and every other temporary relief measure enacted by this Congress will prove futile and useless. The corner stone on which economic recovery depends, the corner stone on which employment will be found for many of the millions of splendid citizens now unemployed, is a balanced Budget. Today the banks, the great financial institutions, insurance companies, and the investing public are afraid to invest in anything but Government bonds. Large institutions have called loans, sacrificed on the market industrial bonds and stocks, trying to become liquid; and I am not going to ascribe to them unpatriotic motives. They know that the Government is spending billions of dollars more than its revenue. They know the Government will have to offer bonds for sale, and it would be calamitous if the United States Government offered bonds and could not find a buyer for them. Therefore, from patriotic motives, the banks are refusing to make loans to private industry.

They are calling in their loans in order to put themselves in shape to purchase the securities which the Government is offering in order to finance the Government. But if you take the other horn of the dilemma and attribute to them selfish and sordid reasons, and say they may be pursuing this policy because, forsooth, with this depreciated price of Government bonds, the best security in the world, they will have a better opportunity later to make a large profit, then some criticism might be made of them for pursuing such a policy. But whatever the reasons, they are now pursuing this policy. When it is known that the Budget is balanced, that the Government will not again have to sell bonds, those banking institutions, those insurance companies, and those long-loan companies and others will not want their money to remain idle in vaults, and they will loan it to manufacturing plants, to individuals, and to industries. It will enable them to again function. It will enable them to give employment.

I am profoundly convinced that this is absolutely true; and, that being so, I have determined to the best of my poor ability to have enacted into law a tax bill that will balance the Budget.—*Extracts, see 5, p. 160.*

## by U. S. Representative Martin

Any sensible man will pay as he goes, he will not keep running into debt and hoping to God that something will happen to take him out of it. Ten months ago the Government sold bonds carrying an interest rate of 1½ per cent. A few days ago the Government sold $300,000,000 of similar bonds, with interest at 3⅛ per cent. Ten months ago the Government sold bonds carrying 1½ per cent, and the other day to refund them it had to pay 3¾ per cent. That shows how it is going. Even so, the lenders demanded an assurance that the Government would balance the Budget; that is, would avoid further

*Continued on page 142*

CON

## Flannagan *Cont'd*

as much consideration as the foreigners, and that he be granted a moratorium from the payment of this deficit until, at least, this depression is over.

Is it the wise or common-sense thing to do?

In my opinion, our people are unable to meet their present tax obligations, much less assume additional tax burdens. Then by what magic do you expect them to dig down in their pockets, which are already empty, and pull out $1,246,000,000? Ever remember that the power to tax is the power to destroy. If you want to destroy—probably that word is too strong and I should say cripple, seriously cripple—the American people and, I might add, the Democratic party if this bill is to be considered as its offspring, all you have got to do, in my opinion, is to pass this bill in its present form.

May I ask what wisdom there is in killing or crippling in order to balance the Budget this year, the goose that lays the golden egg, the American taxpayer? Taxes are like sassafras sprouts—they come back to see us every year. Every year is a tax year, and we had better be binding up the wounds of our taxpayers instead of injuring them, so they will be restored to financial health and stability and will be in position to contribute their just part of the tax burdens in the future years.

Why, my idea of constructive tax legislation at this time is such legislation as will help and not hurt the taxpayer. When a man is in the mire do not jump on his back and force him in deeper, rather hand him a rail and let him crawl out. What the taxpayer needs today is a rail.

The policy of this Congress so far has been to help—to hand the people in this country a rail to crawl out on. We passed the Reconstruction Finance act to give the railroads, banks, insurance companies, and farmers a rail to crawl out on. Well, since we have given them a rail should we not give them time and an opportunity to crawl out? If we pass this tax bill, we will, in effect, be jerking the rail from them before they have a chance to crawl out. Our remedial legislation will simply be idle gestures.

Give the American taxpayer a square deal—a moratorium from additional taxes—until this depression, which is draining the very lifeblood out of our people is over.—*Extracts, see 7, p. 160.*

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## by H. T. Newcomb

MANKIND, as Francis Bacon observed, is governed more by words and maxims than by reason. A "balanced budget" is always desirable and over a long period may be a necessity, but it ought not to be made a fetish and a year, calendar or fiscal, is, as to any budget, a merely arbitrary period. Whether the United States has balanced its budget depends upon the period selected. During the 11 years from July 1, 1919, to June 30, 1930, there was a large surplus of ordinary receipts over ordinary expenditures during every one of the 11 years. In only one year was this surplus less than $500,000,000, and during each of nine years it exceeded $700,000,000. For the whole 11-year period the excess was $8,361,200,000, out of which payment on account of principal of the national debt were made aggregating $4,901,900,000, so that even with the huge reduction in the debt which taxpayers were required to assume during the 11 years immediately following the Great War, there was a balance of receipts amounting to $3,459,300,000.

During the fiscal year 1931, $440,100,000 was paid on account of principal of the debt, after which there was a deficit of $902,700,000, so that the real income deficit of the year was $462,600,000.

If the estimates submitted to Congress for the period from January 1, 1932, to June 30, 1933, which are certainly not overoptimistic, prove not to be underestimates, the real deficit of the three years following the 11-year period from 1919 to 1930, will aggregate $3,596,549,488. It will be noted that the Budget estimates from the year from January 1, 1932, to June 30, 1933, allow for revenues, on the basis of present tax rates, not much exceeding the receipts of the current fiscal year. I believe that substantially greater returns from the present taxes can be anticipated for that period.

Accepting the Budget estimates, however, the figures show that, considering the whole 14-year period following the war, there was an excess of ordinary receipts over ordinary expenses during the first 11 years of $8,361,200,000, while during the succeeding 3-year period there will be a deficit in ordinary receipts compared with ordinary expenses of $3,596,549,488, leaving, for the whole 14-year period, an excess of ordinary receipts of $4,764,650,512. With these facts in mind I do not see how anyone can point a finger at the United States and charge that its Budget has not been balanced.

The American taxpayers, having contributed during 14 years, as shown, a surplus over expenses of nearly $5,000,000,000, I am unable to see any sufficient reason why they should not now be permitted to take credit for that surplus, or a considerable portion of it, before their burdens are increased.

It is recognized, of course, that there is not an available surplus in the amount indicated by the foregoing figures. Whether additional taxes are imposed or not, it is clear that borrowing will be necessary during the current fiscal year to meet the deficit now accumulating. No expedient of taxation, however drastic, could obviate the necessity for such borrowing. In a lesser degree this is probably true of the fiscal year 1933, unless there is such an improvement in business conditions that the present rates of taxation would produce materially higher revenues than the Budget estimates suggest. This being the case, it affords, in my judgment, a further reason why increased taxation should be postponed until the future can be more definitely envisaged.

Whether current and prospective deficits are met by (1) increased taxation, or (2) by borrowing, the Government will, I believe, receive about the same money from about the same sources. That is to say, the money that will be exacted in taxes, in the one case, will be received in payment for bonds, in the other, and the only

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## PRO

### Martin *Cont'd*

deficit. For only so may the Government avoid further borrowings, each increase of which must make security less and interest rates higher. Not only do Government issues impose a growing burden upon the taxpayer, but so long as the Government may be expected to borrow, lenders will hold funds to loan to it rather than to borrowers with less credit. That is common sense.

The Budget must be balanced, therefore: First, to maintain the Federal credit; second, to keep down the tax rate and the tax burden; and, third, to prevent interference with the normal flow of business credit, upon which in the end correction of the unemployment situation must depend. They are the people that we have to look out for. It is not well for the Government to absorb all the money there is in the country, but we should keep it free and liquid for the use of manufacturers and the correction of unemployment.

There is no difference of opinion among informed men that the Budget must be balanced, and still there are those who, for selfish or private advantage or through ignorance, propose printing all the money that may be needed to pay Government expenses. And outside Congress there are similar ideas advanced, as, for instance, by John A. Simpson, president of the Farmers' Union, whom the press reports to favor the issue of prosperity bonds. Did you ever hear of that before—bearing no interest and made legal tender? What a magnificent scheme that is. Start the printing presses and fill us full of money.

Any man of common sense would on theoretical grounds condemn such schemes as unsound in practice. Any man of integrity would reject them as dishonest. But it is unnecessary to theorize. History is full of examples of their failure. For these we may pass by the ruin of Germany by its unlimited issue of paper money and review only a few cases in our own national life.

Now, after the Civil War in 1867 we had outstanding $1,600,000,000 6 per cent bonds that would soon be callable. Their face was in dollars but interest was payable in gold. There was a panic. In the year following was a presidential campaign. Pendleton, of Ohio, was a Democratic candidate. I must painfully confess that the lovers of rag money are very prevalent in my party. Pendleton advocated redemption of the bonds with legal tender additional to that already issued and greatly depreciated. More rag money. More rag money. To this effect a plank was adopted in the Democratic platform. The debtor class in Ohio and States west were so pleased with the idea that Republicans did not dare openly to oppose it, but Pendleton was not nominated, and the Democratic candidate was not elected.

As a step toward resumption of specie payments Congress in 1866 had authorized a slow retirement of greenbacks outstanding, but this was soon stopped by the law of February, 1868. The outstanding greenbacks were reduced from $433,000,000 to $356,000,000.

During the panic of 1873 the amount was increased to $382,000,000—as much as was deemed to be authorized. Business demands for currency had made a greenback dollar worth 90 gold cents. But the West again demanded inflation, and Congress authorized $18,000,000 more in February, 1874. Grant vetoed the bill. At the fall elections his party was beaten, but before its Congress went out it passed the resumption act. The demand for inflation of prices, which is a demand for deflation of money, subsided, and in the autumn of 1875 Hayes was chosen Republican Governor of Ohio on a sound money platform.

On December 17, 1878, greenbacks were at par for the first time since their first issue in 1861. On January 1, 1879, gold payments were resumed.

Under the plea of "absolute necessity" and against administration opposition, the United States issued unsecured notes made legal tender except for import duties. There were 50 millions in July, 1861, 100 millions in February, 1862, 100 more early in 1863, and 200 more were authorized in 1864. The amount never exceeded $433,000,000. From the beginning these greenbacks, as they were called, never sold at par with gold. The dollar was worth about 40 cents through 1864, but fell as low as 35 cents.

In the South, bonds and notes were issued by both central government and the States. Rapidly sinking in value, they were finally so depreciated that towns, counties, insurance companies, and mining companies issued promises to pay. Before the end more than $1,000,000,000 of Confederate notes were worthless. So valueless were confederation promises to pay that its bonds were not exchangeable for supplies, and a tithing system had to be applied to agricultural products to support its armies.

Continental paper money was issued at first in small amount and for a year passed at par of specie. In two years $3 in bills would buy $1 in coin. A year more and the ratio was 38 to 1. In March, 1780, when the circulation was nearly $200,000,000, it was 50 to 1. Soon after it declined to 100 to 1. Then Congress accepted payment of taxes at 40 to 1 and on the same basis exchanged some 5 per cent securities for bills. Currency thus withdrawn was destroyed. After 1790, another $6,000,000 was withdrawn at 100 to 1. About $75,000,000 was never redeemed and was a total loss to its holders. Continental money was in such contempt that in 1780 a joker led his dog, plastered with bills, through the Philadelphia streets, amid the laughter of the spectators.

The States also issued bills to nearly $200,000,000 in amount. The depreciation was enormous and the great part was never redeemed.

The issues of these currencies constituted a forced contribution upon the people and involved great sacrifice.

Realizing as we do, knowing as we do, that the Government is running behind about $4,000,000 a day, how are you going to relieve the situation, how are you going to put the money into the Treasury that you propose to take out?

There are two ways, and one is by the issue of bonds. I think the bond-issue business has about reached the end of its rope.

. . .

If we cannot float bonds to satisfy the spenders, the only thing left is to balance the Budget. If we put money into the Treasury as we pass it out, we will balance the Budget.—*Extracts, see 6, p. 160.*

*Continued on page 144*

## Newcomb *Cont'd*

material differences in actual practice will be (1) that if borrowing is resorted to, those who contribute will receive an interest-bearing promise to return what they contribute, and (2) there possibly may be a slight increase in the rate of interest which the Government will have to pay and, consequently, slight and temporary decreases in the market value of outstanding Federal bonds.

On the other hand, if bonds are given in return for the money received that money will be provided much easier by the citizenship of the country than if the same amount is exacted in taxes, this because bonds will be acceptable as collateral by the banks. The money in any case will have to come from the banks. In one case it will be by decreasing deposits, while in the case of bond issues it will involve increases in deposits by the amounts of the credits devoted to bond purchases. It follows that increased taxes mean additional contraction while resort to bonds will not diminish the supply of funds in the investment market.

I see two causes in the economic field, as distinguished from the political field, for the present depression. The political difficulties are mostly European, and with those we can deal only indirectly. In the economic field we have suffered from (1) a burden of taxation too heavy for industry to bear, and (2) wages rates, in some industries, equated to a decreased purchasing power of the monetary unit which no longer exists; that is to say, wages rates have been increasing ever since the purchasing power of money commenced to increase, and in certain industries, like the anthracite industry, in which there has been no adjustment, the present level of wages creates an especially favored class of workmen. Moreover, being higher than the industry can bear, it reacts unfavorably upon all engaged in that industry. Leaving the question of wages aside, as one that ought not to involve political action, I think it perfectly clear that increased taxation would hinder recovery from the current depression.

There is, of course, the possibility of enormous economies in Government expenditures. I look upon such economies as so little probable, however, that they enter in only a very small extent into the problem that I am discussing. There may be economies of some 1 or 2 per cent where there ought to be economies of 25 to 35 per cent, and such percentages would be realized if the Government were operated like a business enterprise.

If we can be spared increased taxation and detrimental legislation I believe that, no matter what happens in Europe, this country will be in the midst of a period of unequaled prosperity within from five to seven years of the date of this letter. Before that period it would be well if steps might be taken which would prevent the excesses that characterized the first half of the year 1929. But to only a very small extent can such excesses be prevented by legislation. Whenever human beings are spurred on by false enthusiasms, such as those that prevailed during 1928 and 1929, they are pretty sure to contrive some way to proceed to extremes leading to their own discomfiture. Speculation may create a tulips craze or a Mississippi bubble, or it may be in lands or railroads or stocks of manufacturing enterprises, but the result is always the same. That, however, is in the future and beyond the present exigency. In two or three years we ought to be reasonably prosperous, and with the return of such conditions the present tax rates will be quite sufficient, if not unnecessarily high. In the meantime, I think the taxpayers should be given credit for the nearly $5,000,000,000 of excess taxes which they have contributed since the Great War. Through the Reconstruction Corporation, taxpayers have just attempted the rescue of business in general. That is a wise expedient, although in some degrees its results may be to enable temporary escape from the ordinary consequences of bad judgment. The taxpayers have also given aid to agriculture at huge expense, and this aid will continue. It would seem to be a fair corollary that, at this business juncture, the taxpayers should receive what assistance they can receive by being given bonds in exchange for the amounts that will presently have to be raised to meet the expenses of the Federal Government. Why relieve everyone except the taxpayers, who are deprived of their savings by taxation and whose savings are the source of the capital funds that must continue to grow in order that comfort and security may inncrease among the masses of the people?

When Secretary Mellon and Under Secretary Mills declare that omission immediately to increase the revenues by adding to the already heavy burdens of the income-tax payers will impair the credit of the Government they mean no more than that the rate of interest on government borrowings may have to be moved upward until it is not more than 1½ or 2 per cent below the rate which the most favorably conditioned taxpayer has to pay when he borrows to meet his tax payments or for other purposes. A low interest rate on Government loans is very desirable and always the occasion for patriotic pride, but there is a limit to the burdens that taxpayers can endure without endangering the private industry and the country's economic structure. Government ought not to exceed that limit nor make the burden of taxation actually oppressive.—*Extracts, see 4, p. 160.*

# Is the Sales Tax a Sound Meth

## Report of House Committee on Ways and Means

THE Committee on Ways and Means recommends that as a temporary measure to last only during the period of the present emergency, a manufacturers' excise tax at a rate of 2¼ per cent be levied upon all manufactured articles with a few specified exemptions, including an exemption of farmers and of staple food products, and an exemption of small manufacturers. Such a tax will produce, it is estimated, $595,000,000 of revenue for the fiscal year 1933, and it is believed that this tax is an essential part of any program to balance the Budget for that year.

It has been argued that a general manufacturers' excise tax is unfair in that it imposes a burden upon the purchaser of necessities. Those who so argue propose in place of such a tax a tax on specified luxuries or a selective tax on certain industries. A tax on luxuries, however sound in principle, will not meet the present need for revenue. No matter how high a rate were levied on such luxuries (assuming it were possible to agree as to what constitutes a luxury), it not only would not produce the required revenue but would produce only a small fraction of it. As to a tax on certain selected industries, it has been pointed out above that such a tax involved unfair discrimination.

Further it is argued by the opponents of a manufacturers' excise tax that it imposes a burden on the poor man and violates the principle of taxation in accordance with the ability to pay. There are two answers to this argument: First, a tax on a manufacturer at a 2¼ per cent rate will be so small on a poor man, even assuming (which is not the case in many instances) that the entire tax is passed on to the consumer by the manufacturer, as to be negligible. Assume the case of a family which spends $2,000 a year. Probably one-half of this amount would be spent on foodstuff exempt under the proposed tax. The remaining one-half would probably be spent for articles on which the manufacturers had paid a tax. However, this does not mean that the individual would pay 2¼ per cent or $22.50 tax on his $1,000 of purchases, for the tax is levied on the manufacturers' sale price and not on the jobbers' or retailers' price. The manufacturers' sale price on many of the common commodities is not over 70 per cent of the retail sales price, thus the tax burden on the individual would only be $15.75 for the year even if the tax were all passed on. If the tax were one-half absorbed by the manufacturer, the consumer would only pay $7.88. Surely this is no intolerable burden for him to bear in support of his country in these times of great stress.

It should also be pointed out that the more one spends the greater his tax under this manufacturers' excise tax. The poor man with small living expenses will pay much less than the wealthy man who lives in great luxury. And, in addition, there will be no avenue of avoidance for the wealthy of this tax such as tax-exempt securities afford for the avoidance of the income tax.

Furthermore, in the opinion of your committee, this manufacturers' excise tax will not be universally passed on to the consumer, but in many instances will be absorbed by the manufacturer. It is impossible, of course, to anticipate with accuracy the extent to which such tax will be passed on and the extent to which it will be absorbed, but it is believed that in many instances the competitive condition within the industry will result in the absorption of the tax by the manufacturer, and thus no burden will be imposed on the ultimate consumer.

In considering this manufacturers' excise tax your committee has made a careful study of the effects and operation of a similar tax in Canada and other countries and has found that it has been most effective as a revenue producer and has occasioned little, if any, protest or opposition. A similar tax, at much higher rates, has recently been inaugurated in Australia with a favorable reception and with excellent results.

Your committee submits that there is no other source of revenue which will yield the amount imperatively required with as little protest, as little annoyance, and as little disturbance to business as a manufacturers' excise tax.—*Extracts, see 3, p. 160.*

## by U. S. Representative Rainey

THERE are only two older taxes in this world than the sales tax. The tariff tax dates back 2,500 years before the birth of Jesus. The ancient Egyptians imposed their tax at the frontier. It became our tariff tax, and during the ages and during the centuries it has come down to us. No nation ever existed in this world without imposing it. It fits in with the idea which tax makers like to adopt. It is a tax that you do not feel because you do not know you are paying it and that gives it an appeal. No party in this country of any size or of any importance ever advocated free trade. The tariff is a painless tax.

The next tax imposed in the order of tax development in the world was the estate tax. Ancient Egypt imposed it a thousand years before the birth of Jesus. We have just got to it now, just a few years ago. Babylon imposed it; Rome imposed it, and finally we came to it when we were compelled to do so.

Then next in order of tax development we come to the sales tax. Some think it is new. The Greek cities imposed it 500 years before the birth of Jesus, and under those circumstances that does not impress me as a new tax. It did not soon disappear from Greece. They clung to it until the city states of Greece collapsed and chaos came. Rome commenced to impose it in the year 9 A. D. The Emperor Constantine imposed it and it became soon a part of the Byzantian tax system; it continued on down through the ages. Spain imposed it to a greater extent than other nations 1,000 years ago. Her cities imposed

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## by U. S. Representative LaGuardia

For 20 years in this country, and surely for the last 14 years since I have been a Member of the House, there has been a determined effort to write into our law a sales tax. A sales tax by any other name is just as odious. Even if it is called a manufacturers' tax, because revenue, unlike synthetic fertilizer, cannot be taken from the air. The manufacturer is going to pass it on to the ultimate consumers. There are three ways only of paying a sales tax of this sort. First, the consumers; or second, if absorbed it is taken out of wages; or third, it is taken out of the cost of the raw materials. Undesirable in any way.

Now, let us be frank about these things. Let us at least concede existing facts.

This proposed sales tax will put $600,000,000 on the people of this country, and it is only an entering wedge. I will tell you when this country may listen to an argument for a sales tax. Some time in the future, perhaps in the next generation, when we will have some sort of an industrial democracy in this country, when we will not have the concentrated wealth that today controls industry, business, commerce, agriculture, and perhaps even the Government. But we have not yet arrived at that time. Why are we opposed to a sales tax? Because, in the first place, it is unscientific and difficult of administration; and, in the second place, it puts a burden out of all proportion on a large majority of our people; and third, because it is contrary to the American system of taxation.

Representative Crisp took as an example a family spending $1,000 for the maintenance of that family, excluding, of course, items that are exempt like bread, milk, and eggs. When you have exempted eggs in these days of unemployment it will do little good in my city because eggs today are a luxury to the mass of unemployed workers. I grant that bread, milk and flour are exempted; but take other household necessities—clothes, shoes, stockings, furniture, cleaning materials, and prepared foods—all enter into every family expense list. We all know that under our present system of living a great deal of prepared food is used. Lard, oil, canned food, and sausages are taxed. Mr. Crisp points out that such a family would pay about $20.25 a year. However, the average income of that family may only be $1,500, so that such a tax is unbearable and out of all proportion to the income of that family. We have other sources from which we might properly derive taxes. I believe we all agree that taxation should not only be distributed where it can best be borne but also in accordance with the proportion of the benefits derived from government. The working people of this country contribute more than their share and get less in return, I am sorry to say, than the taxpayers who are fortunate enough to be included in the higher brackets. It is the working people who create the wealth. We have not yet reached the time when a sales tax should be imposed on the American people. Do not be deceived when you are asked to put on a sales tax. The American people are going to resent it and will not stand for it. The tax dodgers of the higher brackets have been urging a sales tax ever since we have had an income tax. We are not going to give it to them now.—*Extracts, see 9, p. 160.*

## by U. S. Representative Tarver

This proposed sales tax is a tax on poverty. Admit, as its proponents have urged, that the wealthy will bear a far larger proportion of it than the poor. Taken individually, man for man, that is true. Taken collectively, class for class, it is not true. But the average man, again stating it as individual for individual, will pay out in this tax to the Government a far greater portion of his income than the wealthy man. In most cases, in times like these, he will have to spend it all, and in the cases of uncounted millions of our fellow citizens, if they spend it all it will still fall far short of providing the reasonable necessities of life. And yet, even from these millions, this cruel tax would take a slice of their meager earnings; take it in the added price of every pair of overalls that they buy, in every pair of shoes for themselves or their children, in every farming implement, and in countless other ways. "Soak the poor!" You cannot reach them under the income tax, because when you reduce the exemption for a married man to $2,500, you have still shot far over the heads of the overwhelming majority of American householders. You must lower the muzzles of your guns. You do not dare do it by providing that a man who perhaps makes only a dollar or two a day, and is then out of work half the time, or a farmer whose yearly net income in these troublous times of Republican prosperity will not average so much, shall pay an income tax.

That would be too bald, too obviously outrageous, too patently unjust. But it would be better for him if you did that, because the part of his income that you would take under the present minimum income-tax rates would be less than you would take from him under the sales tax. The average American farmer, for example, is going to have to spend all he makes. He will have to, to keep going. Except for his fertilizer, you are proposing to tax him 2¼ per cent on all of it. You exempt his products from taxation, but how does that help him? He sells his products; he does not buy them. Nor will the 2¼ per cent be all. The manufacturer, when he sells to the jobber, and has to pay 2¼ per cent, will add on at least that much; and the jobber, when he sells to the wholesaler, while he pays no additional tax himself, will nevertheless fix a price which will give him an additional profit on the additional money he has invested; and so will the wholesaler; and the retailer will add some more; and it is not unreasonable to assume that by the time the tax reaches the consumer, and he has to pay it, it will be nearer 10 per cent than 2¼ per cent. Would you vote for a bill that would levy an income tax of 10

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## Rainey *Cont'd*

it, and then they divided it with the king. He maintained his armies out of the 50 per cent contribution of the overlords of the cities of Spain. They furnished it all and it was derived from a sales tax.

Then for a long time it was discontinued until the World War. Germany imposed it during the war, France imposed it just at the close of the war, and now every nation in this world of any importance imposes it except Great Britain and the United States. Under these circumstances it appears to me that those newspapers which are trying to impress upon the country the idea that it is an untried and a new experiment must surely be wrong about it. An experiment that has lasted through all the centuries of recorded history, I contend, is not new.

I have helped to draft more tariff and more tax bills than any other man living in the United States today, so I ought to know something about levying taxes.

Now, I am going to tell what the science of levying taxes is. I can tell you in a few words so that you will understand just as much about it as I do, who have studied it for nearly a quarter of a century. From the standpoint of the responsible legislator, who is going to be criticized for it, the science of levying and collecting taxes is the science of getting the most feathers with the least squawking of the goose. That is all there is to it.

So we are proposing this tax which nobody will feel after it once gets in operation. It is spread out all over the entire field of industry, exempting business which has a turnover of less than $20,000 a year, and this is the highest exemption granted in any country in this world at the present time, carrying these foodstuffs as exempt, exempting farmers from their seed and fertilizers. Our exemptions are much smaller, of course, than the exemptions in Canada. They cover 10 pages. They are longer than the bill. They are much smaller than the exemptions in Australia. In Australia the tax is three times as high as this.

We have avoided all their mistakes. We had that advantage in preparing this bill. We have preserved in the bill all the good features of other sales-tax laws in other countries, and it operates in an exceedingly simple way. We have avoided multiple, turnover pyramiding. We think this sales-tax bill is the best-drawn sales-tax bill in all the world.—*Extracts, see 11, p. 160.*

## by U. S. Representative Hawley

No manufacturer or producer pays a tax on sales under the sales tax as reported by the House Committee on Ways and Means if his total gross business is less than $20,000. All those who sell more than $20,000 worth in a year are to be licensed. The purpose of the license is to prevent pyramiding.

In the case of products of steel, suppose that one mill makes the iron ingots and is licensed. It transfers them to a mill making malleable iron, for instance, by indorsing on its invoice the number or description of the license of the mill making the malleable iron and they go tax free to it. Suppose the next step should be conversion into steel. The same process is used, and finally the steel is sold to a manufacturer who makes tools or some other finished commodity ready for some one in the United States to use. When this manufacturer who makes the finished commodity, ready to be sold, ready for consumption, sells, he pays on his wholesale price 2¼ per cent, and no pyramiding occurs.

Three things may happen to this tax, depending upon market conditions. If the market is good and sales are freely made he may pass the tax on. If the market is not very good and goods are not moving freely, he may absorb the tax, or if his profits are large before the imposition of this tax, he will absorb the tax.

In the event the market is bad, the tax may be passed back in the form of reduced prices to those from whom he purchases.

The Government of the United States has no income of its own. It takes a part of the income of its citizens, and if it is necessary that every citizen contribute a little for the support of the Government, which provides him the conditions of liberty and of life, and of citizenship in this country, it is not an unreasonable burden.. All taxes in times like these are objectionable. I am not enthusiastic over increasing taxes at any time, much less in a condition such as the country is in now, but it is a condition that we have to meet if we are to maintain our credit, if we are to foster a revival of credit in commercial affairs, because if the Government cannot pay its expenses, and its bonds are below par, and its credit is discredited, all commercial credit will likewise suffer. And until we get beyond this credit crisis and confidence is restored in the institutions of the country, financial and otherwise, the billion and one-half dollars in hiding will not come into circulation.

People will be fearful and, moreover, until we do this economic recovery will not occur. Although this tax is a burden, there lies before us the promised land of economic return when every man will have a job and the condition of every class will be improved.—*Extracts, see 5, p. 160.*

## by U. S. Representative Treadway

I venture to say that there were not three men out of twenty-five members of the Ways and Means Committee, when the executive sessions of the committee commenced, who were favorable to a sales tax. The subject has been before the Ways and Means Committee in previous years and did not receive more than passing attention. Perhaps one great objection was what seemed unavoidable, namely, a pyramiding tax. We have not

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## CON

### Tarver *Cont'd*

per cent on the income of every man in the United States who has to pay out all he makes to live? If you would not, then, in pity's name, do not put the stamp of your approval on this sales-tax proposition.

The average man pays now out of his limited income far more than his proportion of the expenses of government. Have our Democratic orators not called attention to that fact and lambasted the Hawley-Smoot tariff bill from 10,000 platforms as an iniquitous thing, which collects from the consumer indirectly a tax which Congress would not dare levy upon him directly, which robs the many for the benefit of the few, and which, more than any other one thing, is responsible for the plight of the American people today?

I feel that all that has been said by them along these lines is justified; and after the campaign of 1930, in which the Hawley-Smoot tariff bill was the outstanding issue, I find myself facing a proposition coming from a committee on which there sat 15 Democrats and 10 Republicans—proposing what?

Proposing an increase in practically every single rate in the Hawley-Smoot tariff bill of 2¼ per cent. And not only that, but proposing 2¼ per cent on all those articles now on the free list. We are asked to out-Herod Herod; instead of redeeming our pledges to lower the tariff, which, of course, in view of Republican control of both the Senate and the Presidency, we do not have the power to do, to add materially to the burden of its iniquity. I know it is said that this additional import duty is necessary in order to protect American manufacturers; that is the very thing the Republicans claim the Hawley-Smoot tariff is necessary for. If we passed the bill and did not provide for the levy of this tax on imports the effect would be to reduce all the rates in the Hawley-Smoot tariff by the amount of the sales tax levied. Are there many Democrat Members of this House who would hold such a reduction unreasonable? If not, and if we pass a sales tax, why not accomplish some reduction in the Hawley-Smoot tariff bill rates by failing to levy the sales tax on imports? This is the first and only opportunity that this Congress will have to even propose a reduction in the rates of that iniquitous bill; and instead of proposing a reduction, an increase—at least a technical increase—is actually proposed.

Not even in the great emergency of the World War, with the tremendous necessities for raising money then existing, was a general sales tax imposed. Democrats held the reins of government then; and in conformity with settled Democratic policy, they placed the burdens of taxation equitably upon the people in proportion to their ability to bear them.—*Extracts, see 5, p. 160.*

### by Arthur A. Ballantyne

THOROUGHGOING proponents of the general sales tax urge that the tax system be changed so that the greater portion of the revenue will be derived from a flat tax on sales or turnover. The rate ordinarily proposed for such a tax is 1 per cent, and estimates of the yield relied upon by them vary from somewhat less than two billion to as much as six billion. The taxes which they would supplant are the excess-profits tax, the current estimated yield of which is rather less than half a billion, the corporation-income tax, and at least the greater part of the individual surtaxes. Sales-tax advocates are not clear and not in harmony among themselves as to what would be done with the present miscellaneous consumption taxes, but presumably these would be in the main supplanted by the general flat tax.

In current discussions proposals for far-reaching uniform sales tax take at least three forms:

1. A tax on every sale or turnover not only of commodities but also of services, real property, capital assets, and on rent and interest.

2. A tax on every business sale or turnover of goods, wares, and merchandise—sometimes referred to as the merchants' gross sales tax.

3. A tax on all final sales of goods, wares, and merchandise for consumption or use.

The first two differ only in the scope of their application, and most of the difficulties with the wholly inclusive tax apply also to what is left within the scope of the more modified second form. While the first form, "a tax on all sales by anyone to anyone," would have the merit of simplicity in definition, it is scarcely conceivable that any tax seriously considered for adoption would include the bothersome item of services, or would be made so burdensome as to cover sales of real estate, sales of securities, or sales of capital assets. A tax in the third form, on "final retail sales" only, would involve so much practical difficulty in requiring the constant distinguishing of final sales for consumption from other sales, and would have to be so high, probably at least 4 or 5 per cent, to yield the amount desired by sales-tax advocates that it does not require special consideration. Discussion is therefore directed to the tax in the second form—a tax on all sales of goods, wares, or merchandise at a rate sufficient to yield the bulk of the needed revenue. It is assumed that such a tax would be assessed upon the net sales of each taxpayer, presumably for each month, and would not be required to be collected from the buyer by the seller as a separate item. Such a requirement is clearly not adapted to conditions prevailing in commercial transactions in this country, and would constitute an intolerable clog and annoyance.

The general sales tax seems on first consideration to afford the most attractive solution of the revenue problem. The advocates of this tax maintain that it would easily furnish the bulk of the needed revenues; that it would be the fairest of all taxes, because under it, all transactions are treated alike; that it would be economically beneficial through freeing for investment purposes funds now absorbed in taxation, and through furnishing incentive for industrial effort by increasing the portion of profits that could be retained; that it would be easier upon the consumer than present forms of taxation because there would be less "pyramiding" of taxes; that the taxpayer would always know where he stood in reference to his obligations to the Government instead of being involved, as at present, in long continued doubt

*Continued on page 149*

## PRO

### Treadway *Cont'd*

adopted what is generally known as a sales tax. We are recommending in this bill a manufacturers' tax.

There is a very marked distinction between the ordinary conception of what has been commonly known as the sales tax and the recommendation in this bill of a manufacturers' tax.

Let me briefly call attention to the work that preceded the final agreement among the members of the committee to adopt the manufacturers' tax. Among the various special taxes suggested by the department were increases on tobacco, automobiles and accessories, radios and phonographs, and checks and drafts. The acting chairman, Mr. Crisp, also suggested and strongly advocated a tax on electrical energy. Every one of these taxes was so strongly objected to that the committee found itself in a dilemma. We must either antagonize all those industries or find some other means of meeting the situation.

That was the position we found ourselves in at the beginning of our executive sessions—either we must increase tremendously the rates recommended on these special excise taxes or we must adopt other kinds of excise taxes, which, of course, would bring upon us the opposition of the groups directly affected by those additional taxes.

A further objection to these special excise taxes was the fact that after we had considered the limit of taxation we found ourselves millions of dollars short of the needed amount of revenue. Therefore, other forms of special taxes and further antagonism of other industries would be thrust upon us or the abandonment of the entire program. We were faced with the choice of two evils, of which we feel we chose the lesser.

I am confident that in agreeing, as we did, almost unanimously upon the manufacturers' excise tax we chose the lesser of the evils with which we were confronted in our very disagreeable task.

Every effort has been made toward two ends—first, as few exemptions as possible, and, second, the elimination of pyramiding.

There are more exemptions, many more pages of exemptions in the Canadian law than there are of the law itself. That is a situation which is not healthy. The merit of a manufacturers' tax lies in its universal scope.

I have the utmost sympathy with several suggestions of exemptions. One of them has to do with canned fruits and vegetables. It is so easy to see how the farmer ought not to be taxed on the tomatoes that go into that can. It is true that if he is a small farmer he has an exemption of $20,000 to start with, but as you picture that farmer—and such farmers exist in my district as well as in yours—you say that exempting him is a mighty simple thing; it is going to cost the Government but mighty little in revenue if we should leave out this small farmer friend of mine. But look at the picture in the aggregate and the aggregate of exemptions of canned products of this country. What will it deduct from our estimate if you exempt canned products? My friends, it will mean a reduction, according to the estimate of the Treasury, of $10,000,000. Picture the whole thing rather than the local situation as it affects you or your constituents.

One word about pyramiding. Under the licensing system carried in the bill pyramiding is avoided. The lead-pencil illustration is an excellent one. Let me repeat it.

And by the way, this illustration was first made by the gentleman from Canada, who was of such great assistance to us, and, later, by our distinguished acting chairman, Mr. Crisp.

Take a very simple lead pencil. You regard that as just one article. But let us analyze it. Here is your lead, which has to be mined, shaped, and framed. Here is your wood, the timber for which has been cut in the forest. The wood surrounds the lead, which is another process. On this end is the rubber. It is very easy to conceive how far this rubber has traveled and how many processes it has gone through before it is put in the lead pencil. Here is a piece of metal holding the rubber onto the pencil. The pencil is painted, and then there is some kind of inscription put on it, and sometimes it carries advertising.

You have this in mind as just a lead pencil, but in analyzing it, as I have done for you, you will see there are six or eight processes. Any one of these processes could be taxed, but in this manufacturers' tax the only tax laid against that article is when the man who finally turns out a finished lead pencil sells it to the wholesaler. That man pays the tax and it is the only tax in all the processes of making this lead pencil.

This shows you what a manufacturers' tax actually is. In the last transaction between the manufacturer and the wholesaler there will be laid this tax, but in the various courses of procedure wherein it is finally shaped into a lead pencil the system of licensing does away with the taxes.

We may find there is some loophole here or something that we have not anticipated, but by and large it is safe for you to say that the bill reported by the Committee on Ways and Means does away with the worst feature of the sales tax as ordinarily conceived and one of the strongest arguments that has ever been raised against it in criticism. It does away with pyramiding.

From the time the committee agreed that the manufacturers' tax should be included in the bill its merits have become more and more apparent. The committee was extremely fortunate in having had splendid advice both from well-known tax experts in this country and a representative of the Canadian Government, whose services were officially secured through the Treasury Department. This gentleman unhesitatingly informed the committee that the bill as drafted would produce the results we wanted with the least possible friction among the people, and that it contained practically none of the defects but all of the merits of the Canadian law.—*Extracts, see 7, p. 160.*

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## CON

### Ballantyne *Cont'd*

and uncertainty; that the Government would be more securely financed through a tax which did not depend upon profits, and more conveniently financed by reason of the collection of the bulk of the revenues each month instead of at quarterly periods; and that the tax would be far easier for the Government to administer than income and profits taxes.

This is a formidable array of arguments, but analysis shows that the only arguments for the general sales tax having any substantial foundation are those of convenience, and that even here the advantages are generally exaggerated. In its fundamental aspects the general sales tax is open to objections broadly classified as follows:

1. The general sales tax is essentially unjust in that it is a tax levied according to needs rather than according to ability to pay.

2. The general sales tax is grossly discriminatory. In so far as the tax cannot be shifted, it is distributed according to gross income, which furnishes no measure of tax-paying ability. This tax treats as being alike transactions which are fundamentally unlike; it subjects to very unequal risks taxpayers in substantially similar positions; it affords an indefensible bounty to the large integrated industry as compared with smaller industrial units.

3. The tax rests upon an artificial basis in that it turns upon the mere form of business transactions and would lead to undesirable changes in business practices.

Approach to the general sales tax is frequently made through the avenue of foreign experience. There is, however, very little in experience in other countries to commend the tax theoretically or, indeed, to furnish any basis for a judgment as to how it would operate under the very different conditions prevailing in the United States.—*Extracts, see 10, p. 160.*

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### by U. S. Representative Williams

Justice in taxation implies equality of sacrifice upon the part of those who pay the tax. But it is needless to discuss the question of equality and justice as applied to the sales tax because no one has attempted to justify or defend it upon the ground of equity and right. It is amazing to find here a revenue measure that none of its advocates or proponents will even try to uphold in principle. The most they can say for it is that there is an emergency now and that this plan is expedient and painless.

It was my privilege to hear the Canadian revenue experts in the city of Ottawa explain the operation of their sales tax. They gave three reasons for having that tax system:

First. It could be economically administered.

Second. It produced substantial revenues.

Third. It did not materially interfere with business activities. No thought or consideration was given to the justice of the plan.

While it is said the plan is economically administered in Canada, it is not so simple there. In the 12 years the sales tax has been in operation there, very many amendments to the law have been made and numerous changes in the rules and regulations, the methods of collection, and the audit of the taxpayers' records have been made. T. M. Gordon in his book, "The Canadian Sales Tax," says: "The issue of interpretations and rulings as to the application of the tax has not been, up to the present, satisfactory, and much confusion and complexity exists among both taxpayers and auditors. The department is now attempting to rectify this."

After 12 years there the rulings are unsatisfactory and much confusion and complexity exists. Canada has only 10,000,000 people, living, for the most, part in rural communities and leading a quiet, contented, and passive life. If after all these years their system is unsatisfactory and confused, what would we have here in this country with our 120,000,000 of bustling, rushing, jostling, ultra-ambitious and intensely active people with all our complex industrial, commercial, agricultural, and financial organizations and activities?

If established in this country, this system will take a commissioner with a number of deputies and assistants to formulate and promulgate the rules and regulations for its operation; it will take a staff of judges and lawyers to interpret such regulations and determine their application; and it will take a veritable army of clerks, stenographers, accountants, auditors, registrars, inspectors, investigators, and collectors to inspect and audit the books and collect the taxes. As the law under the provisions of this bill would expire in 1934, it would pass out of existence before the official machinery would be well oiled and limbered up. Economy in administration would not be one of its virtues here. If the system has caused confusion in Canada, we would have confusion confounded here.—*Extracts, see 12, p. 160.*

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# The 72nd Congress « « Now in Session

***Duration—March 4, 1931-March 4, 1933. First Session Convened Dec. 7, 1931, Recessed from Dec. 22, 1931 to Jan. 4, 1932.***

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### *In the Senate*

**Membership**
**Total—96**

48 Republicans — 47 Democrats — 1 Farmer-Labor

**Presiding Officer**
*President:* Charles Curtis, R.
Vice-President of the United States

**Floor Leaders**

*Majority Leader*
James E. Watson, Ind., R.

*Minority Leader*
Joseph T. Robinson, Ark., D.

### *In the House*

**Membership**
**Total—435**

213 Republicans — 218 Democrats — 1 Farmer-Labor — 3 Vacancies

**Presiding Officer**
*Speaker:* John N. Garner, D.
Member of the House from Texas

**Floor Leaders**

*Majority Leader*
Henry T. Rainey, Ill., D.

*Minority Leader*
Bertrand H. Snell, N. Y., R.

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# The Month in Congress— —

### *Political Developments*

IF some great genius could suddenly appear and show the members of the Senate and House how to clear up the work before them in twenty-four hours and then adjourn, he would undoubtedly receive the profound thanks of a majority of both houses.

As it is they are all looking with longing to that early day in June when they hope they can complete the job and go home for a brief rest before jumping into the campaign for reelection.

The Republican National Convention will convene in Chicago on June 14 and the Democratic National Convention will convene on June 27, also in Chicago.

If Congress remains in session until two or three days before the Republican convention Republican Senators and Representatives would barely have time to make connections at Chicago. Many Senators and Representatives are on the convention delegations from their states and even if they are not they usually like to be on hand to find out what is going on.

Before attending the conventions they also like to spend a few days at home to get in touch with the sentiment in their districts. This is peculiarly true this year because nine Senators and Representatives out of ten are actually in doubt as to sentiment in their districts and want to get home and talk things over.

Therefore, although there have been suggestions that Congress sit through the convention periods with a skeleton membership present and after the conventions are over come back to continue sitting, these suggestions have fallen on deaf ears so far as a vast majority of the membership is concerned. So likewise with suggestions that Congress take a recess to meet in October or November. They are now setting their hearts on adjourning not later than June 7 and are hoping to adjourn on June 4.

Every member of the House and one-third of the members of the Senate must stand for reelection this year. Only a chosen few are even sure of renomination and most of them are still to face primary campaigns for renomination. While some of the nominating primaries already have been held the bulk of them are still to be faced, some of them not coming until September.

All over the country are bright young critics ready to attack the incumbents and prove that new blood is needed in Congress and that of all the new blood available they are the best.

And what makes it worse is that this is one of those years when even the keenest judges of public sentiment are uncertain of their ground.

There are members of the Senate and House from whose makeup all traces of demagoguery are absent; men who are sincerely trying to decide which is the correct and sound way to vote on various bills and yet cannot make up their minds.

Ask them how their states are going in the November elections and they will tell you frankly that they do not know. At the time Congress convened they felt they had a fair line on public sentiment. But now they are not so sure.

During the debates on the tax bill in the House several members referred to the case of a former Representative who boasted that he had always voted for every appropriation bill and against every tax bill and to that policy attributed his continued reelection every two years.

Many members came to this session, principally those who were serving their first term or who have been in Congress only a few years, determined to follow that formula. As time went on they became less certain of the advisability of this plan.

They are doing the best they can in facing each con-

troversial bill as it comes up and trusting to luck that they can justify themselves when they go before the voters.

Although the House is nominally Democratic and the Senate nominally Republican, neither party, with its paper majority in the house it is supposed to control, is actually strong enough to put through a party program.

This was proven in the House on the tax bill and is expected to be made even more apparent when the economy program is taken up. Therefore there has been little opportunity for a real show-down between the two parties.

As one veteran member of the House remarked when a colleague voiced the opinion that the Democrats in the House and the Republicans in the Senate were without real leaders:

"Shucks, it isn't leaders they need—it's followers."

The crux of the whole battle so far has been the question of spending money or saving money. This question has been the controlling factor in the tax bill and the appropriation bills and will be the factor in the coming fight over the economy program.

Of the ten regular annual appropriation bills, but two have so far been passed by both houses of Congress and signed by the President. These are the First Deficiency Bill and the Interior Department bill. The former is the measure that is always put through promptly at the beginning of every session and carries with it various odds and ends of appropriations that are needed to make up deficiencies here and there.

The others follow along in order and while they are frequently the subject of sharp controversy and often remain for some time in conference while differences between the House and Senate are ironed out they generally run through the legislative mill on a fairly prompt schedule in the long session and are all passed in good order before the closing days of the session.

This time, however, they have been having rough sledding because from the time the Secretary of the Treasury sent the budget message to Congress they have been the subject of the money-saving policy urged by President Hoover.

To announce that appropriation bills must be drastically cut and to summon enough votes on the floor of the House or Senate to sustain that policy are two different things. Not only are jobs for constituents or friends of constituents involved but local or group desires for certain appropriations are also to be considered.

What has held the appropriation bills up more than anything else is the problem of reduction in the number of Government employees or cuts in the salaries of those employees. Until a policy on that score is agreed upon nothing definite could be done about the appropriation bills.

And that question will not be settled until action is had on the general economy program. By this program, as sent to Congress by the President, $200,000,000 will be cut from the Government expenditures for the fiscal year beginning July 1, 1932, as against the expenditures for the current year. But to accomplish this the departments must be reduced or consolidated and employees given furloughs without pay or subjected to cuts in pay.

Anyone who thinks that is an easy problem for a member of Congress to face might come to Washington and spend a day in and around the offices of any Senatotr or Representative. He will soon change his opinion. Advocates of pay cuts and opponents of pay cuts; advocates of relief appropriations and opponents of relief appropriations are after the Senators and Representatives daily and hourly. So crowded has this session been with controversial problems that the members have had little or no time for calm reflection.

As of April 19, nine appropriation bills had been reported to the House from the Committee on Appropriations. Of these, two, the First Deficiency and the Interior bill, have been passed and signed; five more have passed the House and one has passed the Senate.

In addition to the two mentioned above, those remaining and their status are:

Agriculture: passed both houses and in conference.

State, Justice, Commerce and Labor: passed House and reported to Senate.

Treasury and Post Office: passed House, in Senate committee.

Independent Offices: passed House, in Senate committee.

District of Columbia: passed House, in Senate committee.

Legislative: reported to House.

Navy: reported to House.

War Department and Second Deficiency: not yet reported to House.

### *Agriculture*

The three leading farm organizations of the country—the Farmers' Union, the National Grange and the American Farm Bureau Federation—have joined forces to urge upon Congress the passage of what they consider essential agricultural-aid legislation at the present session. They will stress at coming hearings before the Senate Committee on Agriculture and Forestry and the House Committee on Agriculture the segregation of surplus farm products and the disposal of them at home or abroad so that American farmers can obtain what they term "an American price" for their products. The costs or losses of handling the surpluses, they will urge, should be borne by every unit of the community. To this end they advocate both the equalization fee and the export debenture plans. The cost of production in America, these organizations hold, should be the basis on which to calculate the price the farmer should receive. Their program will probably be presented in the form of a tentative bill drawn up by officers of the three organizations. In the meantime several agricultural measures have made legislative progress.

The Capper Resolution, S. J. Res. 108, authorizing the Secretary of the Treasury to investigate future tradings in agricultural products, was reported from the Committee on Agriculture and Forestry on April 4, and is now on the Senate calendar. Efforts to strike from the Independent Offices Appropriation bill the appropriation for the Federal Farm Board were defeated in the House on April 11.

The Norris Resolution, S. Res. 42, for investigation of the Farm Board by the Senate was passed on April 11.

### *Anti-Injunctions in Labor Disputes*

THE Norris-LaGuardia bill to curb the use of injunctions in labor disputes was passed by the Senate on March 1 by a vote of 75 to 5 and by the House on March 8 by a vote of 363 to 13. It was sent to conference on March 9; reported from conference and passed on March 18. It was signed by the President on March 23.

The bill, now a law, declares the right of labor to organize and to bargain collectively. It makes unlawful so-called "yellow dog" contracts which prohibit employees from joining unions and, except where overt acts as set forth in the bill are committed, forbids issuance of injunctions without a full hearing and finding of fact, and grants to persons charged with contempt of court for violating an injunction, the right to trial by jury under another judge.

### *Banking*

THE following progress has been made on the Administration's program for financial legislation:

Moratorium—(H. J. Res. 147), approved December 23, 1931.

Reconstruction Finance Corporation—(H. R. 7360), approved January 22, 1932.

Federal Land Bank Loans—(H. R. 6172), approved January 23.

Federal Reserve System Extension—(H. R. 2093), approved February 27.

On January 21 Senator Carter Glass, Va., D., introduced a bill for the general revision of the banking laws, including provisions for broadening the base of the Federal Reserve loan system. These features, however, were taken out of the Glass general revision bill and incorporated in the Seagall-Glass bill, H. R. 9203, which was passed by both Houses and approved February 27.

Senator Glass withdrew his original general revision bill for further consideration by a subcommittee of the Senate Committee on Banking and Currency, of which subcommittee Mr. Glass is chairman. It was agreed upon and reintroduced in revised form by Senator Glass on March 17.

This bill, S. 4115, which, if enacted, will be known as "The Banking Act of 1932," provides for restriction in the use of Federal Reserve assets to prevent diversion of funds for speculative purposes; sets up a system of branch banking by national banks; provides for prompter payment of depositors in closed banks; raises to $100,000 the amount of capital a bank must have to obtain a National Charter, and empowers the Comptroller of the Currency, the governor of the Federal Reserve Board and the district Federal Reserve Agent interested, to act as a Board to revoke the charter of a bank whose officials are guilty of illicit and irregular actions in the conduct of the bank's affairs.

The bill contains other technical changes in existing banking laws, when the bill is reported to full committee on Banking and Currency it will be given prompt consideration by the Senate. As some of its provisions are highly controversial a full debate is expected.

After holding hearings on the home loan bank bill, H. R. 7620, introduced by Representative Robert Luce, Mass., R., a subcommittee of the House Committee on Banking and Currency will make a report to the full committee in favor of this bill.

This measure, which has the strong endorsement of the administration, being one of the major features of President Hoover's reconstruction program, provides for the creation of 12 home loan discount banks in 12 separate districts for the lending of money for home building. A companion bill has been introduced in the Senate by Senator Watson, Ind., R., and a similar bill by Senator Bulkley, O., D. Both Senate bills are before the Senate Committee on Banking and Currency.

On April 19 the House Committee on Banking and Currency reported H. R. 11362, introduced by Representative Steagall, Ala., D., chairman of the committee, providing for guaranty of bank deposits.

The committee is expected to report out next H. R. 11499, by Representative Goldsborough, Md., R., for the stabilization of the dollar. Following this the committee will give consideration to the home loan bank bill.

### *Bankruptcy*

HEARINGS are being held by a subcommittee of the Senate Committee on the Judiciary on proposed changes in the Federal bankruptcy laws. On February 29, following a thorough investigation by the Department of Justice, the President sent to Congress a special message on the subject accompanied by the department report and the draft of a bill. This was introduced by Senator Hastings, Del., R. (S. 3866).

It is expected that the hearings will continue throughout the month of April and after all proponents and opponents have been heard the subcommittee will prepare the draft of a bill for consideration by the full committee. It is doubtful if the bill will be considered by the Senate at this session, but will probably be taken up early in the next session.

### *Copyright*

HEARINGS have been in progress before the House Committee on Patents on H. R. 10264, introduced by Representative William I. Sirovich, N. Y., D., chairman of the committee, for general revision of the copyright laws and providing for American participation in the International Copyright Union.

At hearings held on March 21 and 24, leading authors appeared. The radio, music publishing and phonograph record interests will be heard later.

Bills for general revision of the copyright laws have been before Congress for several years. The Vestal bill passed the House in the last Congress, but was the victim of a general filibuster in the Senate in the closing hours of the session.

### *"Lame Duck" Amendment*

AFTER a nine-year battle in Congress, the Norris constitutional amendment, abolishing the so-called "lame duck" session of Congress, and changing the beginning of the President's term of office, etc., has received the approval of Congress. On March 2 the House adopted the conference report on the measure (S. J. Res. 114), which was approved by the Senate the following day.

This is the first constitutional amendment adopted by Congress since the child labor proposal eight years ago. Like that proposal, which failed of ratification, this proposal must be ratified by 36 States within seven years to become valid.

Outstanding among the measure's provisions is elimination of the "short session" of Congress extending from the first Monday in December until March 4, and the establishment of sessions of indeterminate length to begin each January 3.

Under the amendment members would take up their duties in January, two months after their election, instead of waiting thirteen months until the following December.

Terms of the President and Vice-President would begin on January 20 instead of March 4.

Legislatures in the following States have ratified the amendment:

Virginia, March 4; New York, March 11; Mississippi, March 16; New Jersey, March 21; Arkansas, March 22; Kentucky, March 30; Maine, April 1; Michigan, April 2. Total, 9.

### *Maternity and Infancy Legislation*

On March 15 the Senate Committee on Commerce filed with the Senate the favorable majority report to accompany the Jones "Maternity and Infancy" bill, S. 572 (H. R. 5725), describing it as particularly urgent in view of the "effect of the depression."

The measure as reported would make its benefits apply to urban as well as rural localities. It calls for appropriation of $500,000 for the fiscal year ending June 30, 1933, and $1,000,000 for each year thereafter, to be distributed among the States with the requirement that they match the funds and use them to cooperate with the Children's Bureau of the Labor Department in maternal and infancy health activities.

Seven members of the committee, at the same time, filed a minority report opposing the bill on the ground that a similar measure—the Sheppard-Towner act passed several years ago—has been of questionable benefit; that it would be an encroachment on State rights, and that it is an unwise and unnecessary expense.

### *Motor Buses*

Hearings have been concluded by the Senate Committee on Interstate Commerce on S. 2793, introduced by Senator Couzens, Mich., R., chairman of the committee, for interstate licensing of motor buses and their control by the Interstate Commerce Commission. It is expected that this bill will be reported to the Senate in the near future.

### *Muscle Shoals*

On March 9, the Senate Committee on Agriculture, by unanimous vote, favorably reported to the Senate the Norris Muscle Shoals resolution, S. J. Res. 15, identical to the one which President Hoover vetoed at the last session of Congress.

The measure provides for Government operation of the $150,000,000 power and nitrate plants at Muscle Shoals, on the Tennessee River, unless President Hoover is able to negotiate a lease for the nitrate plants within a year.

It also provides for Government manufacture of power at Muscle Shoals and construction by the Government of transmission lines for its distribution with preference to States, counties and municipalities.

The committee, in reporting the bill, put aside a measure introduced by Senator Kean (Republican), New Jersey, to carry out the recommendations of the commission appointed by President Hoover and the Governors of Tennessee and Alabama for operation of the Shoals by a farmer-controlled organization.

On April 4 a new Muscle Shoals bill, H. R. 11051, introduced by Representative Hill, Ala., D., differing form the Norris plan pending in the Senate, but containing a Government-operation alternate to private operation, was reported by the House Military Affairs Committee and is on the House calendar.

### *Pay Cuts*

Among the most bitter contests waged in Congress during the present session has been over the question of cuts in the pay of Government employees. This question is part of the general problem of reducing Government expenses.

In his recommendations to Congress, President Hoover has taken the position that instead of a cut in the prevailing salary scales each Government employee should take a month's furlough each year without pay.

The issue will be fought out in the House when the special House Economy Committee makes its report on the omnibus departmental reorganization bill.

### *Philippine Independence*

On April 5 the House, by a vote of 306 to 47, passed H. R. 7233, introduced by Representative Butler B. Hare, S. C., D., granting independence to the Philippines eight years after the bill becomes a law.

A Senate bill, S. 3377, introduced jointly by Senators Harry B. Hawes, Mo., D., and Bronson Cutting, N. Mex., R., which was reported by the Committee on Territories and Insular Affairs on March 1, is on the Senate calendar.

The House bill, upon reaching the Senate, was referred to the Senate committee, but had not been acted on on April 20. The House and Senate bills differ in many respects, notably in the time which must elapse before freedom is finally granted. This time is set in the House bill at 8 years and in the Senate bill at 15 years.

The Administration is opposed to both measures, Secretary of State Stimson and Secretary of War Hurley both having gone on record against them.

The salient features of the House bill are the following:

The House, March 4, approved the Philippine independence bill (H. R. 7233) by a vote of 306 to 47. Under the measure, independence would follow an eight-year transition period. A two-thirds vote was necessary because the bill was passed under a motion to suspend the rules which also prevented the offering of amendments.

A bill designed to accomplish the same purpose though providing different procedure in some respects, is now pending before the Senate, having been reported favorably to that body from its Committee on Territories and Insular Affairs.

The House bill contains the following salient provisions, according to its accompanying report:

"1. The Filipino people are authorized to adopt a constitution and institute the government of the Commonwealth of the Philippine Islands which will exist pending complete independence. Under such government they will enjoy complete autonomy as to domestic affairs, subject only to certain reservations intended to safeguard both the sovereignty and the responsibilities of the United States.

"2. Pending final relinquishment of American sovereignty the free importation of certain Philippine products into the United States shall not exceed specified limits based upon the status quo as represented by estimated importations from existing investments.

"3. Pending independence, Philippine immigration to the United States is limited to a maximum annual quota of 50.

"4. On the fourth of July immediately following the expiration of a period of eight years from the date of the inauguration of the government of the Philippine Commonwealth, American sovereignty will be withdrawn and the complete independence of the Philippine Islands formally recognized. Thereupon the Philippines, to all intents and purposes, will become a country foreign to the United States.

"5. The United States reserves the right and privilege, at its discretion, to retain and maintain military and naval bases and other reservations in the Philippine Islands."

### *Prohibition*

THE second record vote of the session on the direct question of prohibition was taken on March 14 when the House voted on the resolution authored jointly by Representatives J. C. Linthicum, Md., D., and James M. Beck, Pa., R., proposing an amendment to the Eighteenth Amendment to the Constitution, which, in effect would give each State control of the sale of liquor within its borders. On February 16 the House Committee on the Judiciary, to which the resolution had been referred, rejected a motion to report it by a vote of 14 to 9.

Following this action, Representative Linthicum began circulating a petition, under the new House rules, to discharge the committee from consideration of the bill. One-third of the membership of the House must sign such a petition. Mr. Linthicum obtained 145 signers, the requisite one-third, and on March 14 presented his petition to the House and called for a vote. The question voted on was whether the House should take up for consideration the Linthicum-Beck resolution which the committee had refused to report. On the roll call 187 voted to consider the resolution and 227 voted against its consideration, showing a majority of 40 votes. There are two vacancies in the House, but assuming the full membership of 435 present, this means that the "wets" must gain 31 more members in order to muster a majority of the House, which is 218.

A majority would enable them to force consideration of a resolution to amend the Constitution, but in order to pass it they must increase their present strength of 187 votes by 103 additional votes to reach the necessary two-thirds strength of 290.

The first prohibition test came in the Senate on January 21 when the Senate by a vote of 55 to 15 defeated a resolution offered by Senator Hiram Bingham, Conn., R., asking governors to hold referenda in their respective States to determine prohibition and anti-prohibition sentiment, while the "wets" maintain that this vote was not a fair test of "wet" and "dry" sentiment in the Senate, an estimate based on the vote shows that to obtain consideration of a Constitutional amendment in the Senate the "wets" need 34 more votes for the necessary majority of 49, and 49 more votes for the 64, or two-thirds vote necessary for passage of such a resolution.

On the vote on the Linthicum-Beck resolution in the House 97 Republicans voted for and 112 voted against, while 90 Democrats voted for and 114 voted against.

Majority and minority reports were filed with the Senate Committee on Manufactures on March 20 by a subcommittee of that committee on S. 436, introduced by Senator Hiram Bingham, Conn., R., to legalize the sale and manufacture of 4 per cent beer. Those voting to report the bill to the full committee were Senators Metcalf, R. I., R., and Bulkley, O., D. Against the bill was Senator Hatfield, W. Va., R. This report followed several days' hearings in which both sides were heard.

On April 20 the full committee, by a vote of 7 to 4, defeated a motion to accept the subcommittee report, and ordered the Bingham bill to be adversely reported to the Senate.

A subcommittee of the Senate Committee on the Judiciary is holding hearings on various measures advocating an increase in the alcoholic content of beer.

### *Railroads*

THE House Committee on Interstate and Foreign Commerce has been working since the beginning of the session on railroad bills, involving the recapture clauses of the Interstate Commerce Act and the consolidation and acquisition of control of carriers by railroads.

It is expected that new bills covering these points will be agreed upon in committee and introduced by the committee chairman, Representative Rayburn, Tex., D.

On March 19 President Hoover, in a public statement, following several conferences with representatives of the Interstate Commerce Commission, the Reconstruction Finance Corporation and the Railway Credit Corporation, that a survey of the railroad situation showed that the financial problem confronting the roads is of smaller dimensions than had been generally reported and that, therefore, recourse to the aid of the Reconstruction Corporation will be less than originally thought.

### *Reorganization of Executive Departments*

BECAUSE of the growing demand for lower costs of government, added impetus was given at the beginning of the present session of Congress to consideration of reorganization of the Federal Executive departments.

During the Harding Administration a joint committee of Congress and the cabinet was formed to consider the problem. The committee finally reported, but no action resulted. President Coolidge frequently recommended the passage of reorganization legislation.

President Hoover, as Secretary of Commerce, was a member of the joint committee on reorganization and

his knowledge of the departments, gained at that time, caused him to become the leading advocate of departmental reorganization, not only for the sake of economy but also for the sake of efficiency.

As the tax problem became acute in Congress the demand for reduction in departmental expenses increased.

On December 8, 1931, President Hoover sent a special message to Congress urging legislation for reorganization on the ground of economy and efficiency, the reorganization to involve eliminations and consolidations of various branches of the departments to avoid existing overlapping and duplication of work. On February 17 he sent a second message urging prompt action.

Bills were introduced in both the House and Senate giving the President authority to effect reorganization by executive order. This plan was opposed by the Democratic leaders in the House, and a resolution by Representative Lewis W. Douglas, Ariz., D. (S. Res. 151), was adopted providing for a special committee of seven members of the House to study reorganization plans and report to the House on or before April 15. The speaker appointed as chairman of the special committee Representative Joseph W. Byrns, Tenn., D., chairman of the Committee on Appropriations; John C. Cochran, Mo., D., chairman of the Committee on Expenditures in the Executive Departments; Lewis W. Douglas, Ariz., D.; John McDuffie, Ala., D.; C. William Ramseyer, Ia., R.; Will Wood, Ill., R., and William Williamson, S. D., R.

After conferences with leaders of both parties in the House, President Hoover, on April 16, sent definite recommendations to Congress (see Foreword, this issue) on this question. The matter will probably have been threshed out so far as the House is concerned by the time this issue of the DIGEST is off the press.

As it involves the matter of pay cuts or enforced furloughs for Government employees, a bitter controversy is expected.

In the meantime, the Senate has been cutting the annual appropriation measures on an average of 10 per cent and a conflict between the House and Senate on the general subject of Government expenditures is imminent.

### *Silver*

A SUBCOMMITTEE of the House Committee on Coinage, Weights and Measures has been holding hearings on various measures designed to rehabilitate the price of silver. Advocates of an international conference to stabilize the price of silver have testified that such a conference is necessary in the interests of worldwide economic stability. Opponents have pointed out that President Hoover's efforts to bring about an international conference have failed because of lack of interest on the part of other countries. The problem of silver has been frequently discussed on the floors of the Senate and House, but the chances of the passage of any legislation on the subject at this session appear doubtful.

### *Soldier Bonus*

AS the DIGEST goes to press hearings are being held by the House Committee on Ways and Means on the various bills for more cash bonus for World War veterans.

The Administration, the American Legion, and the leaders of both political parties in Congress are opposed to the passage of any bonus legislation at this session, but there is a strong movement on foot among some of the House members to put a bonus bill through over that opposition.

In the event that the Committee on Ways and Means, after the hearings are over, either reports against a bonus bill or withholds action, the advocates of this measure are ready to present to the House, under the new rules, a petition signed by 145 members, to discharge the committee from consideration of the bill and bring it to the floor of the House.

The outcome is in doubt, although the general situation in the House appears less favorable for the bonus advocates than it did when Congress convened in December last. At that time the general prediction was that a bonus bill would be passed by Congress and vetoed by the President, the chances being even that the bill would be passed over the Presidential veto by the required two-thirds vote of both houses.

As time went on, however, the opponents of the bonus continued to grow stronger. The estimate of the situation changed to the opinion that a bonus bill would be passed, but that there would be enough opposition to prevent its being again passed over a veto.

After the hearings by the Committee on Ways and Means began on April 12, the estimates changed again to the view that a vote on a bonus bill in the House will be extremely close and may result in a defeat for the bonus.

### *Stock Market Speculation*

ON March 4 the Senate adopted S. Res. 84 for an investigation of the Senate Committee on Banking and Currency into the operations of the New York Stock Exchange with respect to the buying and selling of securities. The resolution was drafted by Senators Walcott, Conn., R., Steiwer, Oreg., R., and Bulkley, O., D., a subcommittee of the Committee on Banking and Currency. An appropriation of $50,000 was voted to defray the cost of the investigation which is being conducted by the full Committee on Banking and Currency.

On April 8 the committee adopted a resolution calling for the records of short sales on the stock market. On April 11 the committee began hearings, the first witness being Richard Whitney, president of the New York Stock Exchange. It is the claim of the authors of the investigation that to a great extent the prolongation of the economic depression has been due to the deliberate manipulation by short sellers in the stock market of securities which otherwise would have remained stable.

It is expected that the committee, with the aid of competent experts, and armed with the authority to compel the production of records, will produce interesting facts and figures on stock market manipulations, which it is claimed by many keen observers in Washington will have a vital effect on the economic situation.

On April 18, Mr. Whitney gave the commtitee the latest Stock Exchange figures on "short sales."

### *Tariff*

The Tariff bill, H. R. 6662, changing the administrative features of the existing Tariff laws, passed by the House on January 9 and adversely reported by the Senate Committee on Finance on a strict party vote, was passed by the Senate, with amendments, on April 1.

In an effort to avoid a conference on the Senate amendments, the Democratic leaders in the House contemplate asking for a special rule for consideration of the bill on the floor of the House with a view to early consideration. The bill is expected to pass the House, since the Senate amendments involve changes in phraseology rather than vital provisions. President Hoover is expected to veto the bill and Congress is expected to sustain the veto.

### *World Court*

On March 2 the Senate Committee on Foreign Relations unanimously approved a resolution offered by Senator Reed, Pa., R., a member of the committee, providing that the United States adhere to the court "with the clear understanding that the Permanent Court of International Justice shall not, without the consent of the United States, entertain any request for an advisory opinion touching any dispute or question in which the United States has or claims an interest."

A similar reservation by the Senate in voting adherence to the court in 1926 was never accepted by the other powers. As a result the revised protocol sponsored by a committee of jurists headed by Elihu Root was drafted with a view to surmounting this difficulty.

Senator Walsh (Democrat), of Montana, leader of the court forces, argued that the Reed resolution reaffirming the Senate's stand against advisory opinions was "merely interpretative" and did not require approval by the other powers.

Senator Robinson, of Arkansas, the Democratic leader and a friend of the court, however, challenged this contention and expressed the opinion that the Reed modification was in conflict with the Root formula and required formal approval of the other nations.

The World Court foes, led by Chairman Borah (Republican) of the committee, took the same ground, namely, that if the Reed modification was not accepted by the other powers it was not binding.

Senator Watson, of Indiana, the Republican leader, and an opponent of the court, said: "It is a reservation and they can never get it ratified by the other signatory powers—and if it is not a reservation, then they can never get it ratified by the Senate."

On April 18 the Senate Committee on Foreign Relations rejected by a vote of 11 to 8, three members being absent, the resolution offered by Senator Key Pittman, Nev., D., requiring all members of the World Court to state whether, under the Root formula, the United States would be protected from advisory opinions of the court.

It is extremely doubtful if the Walsh resolution for adherence to the protocol will be reported by the committee at this session of Congress. If it is reported it will be late in the session with the understanding that its proponents will make no attempt to bring it up before adjournment.

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## Politics

**1. The science and art of government; the science dealing with the organization, regulation, and administration of a State, in both its internal and external affairs; political science; also, formerly, that branch of ethics dealing with the ethical relations and duties of states or social organizations.**

**2. The theory or practice of managing or directing the affairs of public policy or of political parties; hence, political affairs, principles, convictions, opinions, sympathies, or the like; in a bad sense, artful, or dishonest management to secure the success of political candidates or parties.—Webster's New International Dictionary.**

# Students' Question Box

## A Special Service for Subscribers

***To care for the many questions coming to the Digest office from subscribers, "The Students Question Box" is herewith included as a regular monthly department. As many questions will be answered each month as space permits, on Congress and the Federal Government.***

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***Q.*** Must Congress authorize all payments made by the U. S. Treasury? B. J.

***A.*** The exclusive power "to pay the debts" of the United States resides in Congress. In common parlance, Congress "holds the purse-strings." In no other way than by authority of law of Congress can money be paid out of the Treasury. No officer of the Government, not even the President, is empowered to pay debts of the United States. Not even the judgment of a court against the United States can be satisfied without an appropriation of Congress. The expenses of the legislative establishment, including the contingent funds of the Senate and House of Representatives, must be provided by laws appropriating the necessary money from the Treasury. Neither House of Congress, alone, may authorize appropriations. Each House, under certain restrictions of law, may spend its own contingent fund, the money having first been appropriated, but beyond this it may not go without the concurrence of the other House and with the approval of the President.

Appropriation bills, twelve in number, including deficiencies, originate in the House of Representatives, to which is sent the estimates prepared by the Budget Bureau. The right of the House exclusively to originate appropriation bills has been questioned by the Senate as not being included in the Constitutional grant of exclusive power to originate revenue bills, and while differences of opinion on this subject have been expressed pro and con by able lawyers and parliamentarians the fact and the practice remain of originating appropriation bills in the House, leaving to the Senate rather broad power to amend.

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***Q.*** How is the time for electing Members of Congress determined? J. T. A.

***A.*** The time for the election of Members of the House of Representatives is not defined by the U. S. Constitution which states only that the choice take place at any time in every second year. The rest is left to the discretion of each State. But for the sake of uniformity and convenience the term of a Congress begins on the 4th of March of the odd-numbered years and extends through two years. This results from the action of the Continental Congress on September 13, 1788, in declaring, on authority conferred by the Federal Convention, "the first Wednesday in March next" to be "the time for commencing proceedings under the Constitution." This date was the 4th of March, 1791. Congress, by law, has fixed the first Tuesday after the first Monday in November in the odd year as election day for Members of the House, and that day is observed with only one exception, the Members from the State of Maine, under a State law, being elected in September.

***Q.*** Are the delegates from our Territories accorded the same privileges in the House of Representatives as the regular members? M. A.

***A.*** Delegates from Territories in the House of Representatives are not Members of the House, but are creatures of Statute, and the Congress may abolish the office altogether. Delegates are accorded certain privileges by the rules of the House, including participation in debate, but they are not allowed to vote. Resident Commissioners from the insular possessions have practically the same status as Delegates.

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***Q.*** Does the election of a Member of the House by a district guarantee him a seat in that body? M. T. L.

***A.*** The House itself is the sole judge of the election and qualifications of its members. It has happened frequently that a person about whose election and return there is no question has not been permitted to take a seat in the House on his prima facie right, i. e., a certificate of election, the House adjudging him disqualified for some reason. Two prominent cases in recent years are those of Roberts (Utah), disqualified as a polygamist, and Berger (Wisconsin), excluded on the ground of giving aid and comfort to the enemy in time of war. Both of these men were elected and returned, but neither became members.

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***Q.*** How is a vacancy in the U. S. House of Representatives filled? A. M.

***A.*** Article 1, Section 2, Clause 4 of the U. S. Constitution provides:

*When vacancies happen in the Representation from any State, the Executive Authority thereof shall issue Writs of Election to fill such Vacancies.*

A Representative may not be appointed. He must be elected. The Executive Authority, i. e., the Governor of a State is empowered to call an election to fill a vacancy in a District or in the State-at-Large, as the case may be. Vacancies occur by death, resignation, declination, withdrawal, and by action of the House.

In resigning from the House a Representative transmits a letter to the Governor of his State in which the effective date is stated, and then notifies the Speaker of the House of this action, or in the case of a Representative-elect he notifies the Clerk of the House who is in possession of his credentials. However, there are instances of Representatives notifying the House alone, in which case the Executive is informed; instances of the Governor only being notified, who informs the House; and sometimes the House learns of a resignation only by means of the credentials of his successor.

It is a matter of unofficial record that the Governor of a State appointed a person to fill a vacancy in the House of Representatives, and it was stated that he had been so empowered by the Legislature. When attention was called to the above provision of the Federal Constitution the Governor called a special election. A Representative must always be elected by the people. The power to call an election cannot be delegated by a Governor.

## State Nominating Primaries—1932

| State | Date | | Day Fixed by Law | Senator Whose Term Expires |
|---|---|---|---|---|
| *Illinois | April | 12 | 2nd Tuesday | Otis F. Glenn (R) |
| *Nebraska | | 12 | 2nd Tuesday | |
| Pennsylvania | | 26 | 4th Tuesday | James J. Davis (R) |
| Maryland | May | 2 | 1st Monday | Millard E. Tydings (D) |
| *Indiana | | 3 | 1st Tuesday after 1st Monday | James E. Watson (R) |
| Alabama | | 3 | 1st Tuesday | Hugo L. Black (D) |
| *South Dakota | | 3 | 1st Tuesday | Peter Norbeck (R) |
| *Ohio | | 10 | 2nd Tuesday | Robert J. Bulkley (D) |
| *West Virginia | | 10 | 2nd Tuesday | |
| New Jersey | | 17 | 3rd Tuesday | W. Warren Barbour (R) |
| Oregon | | 20 | 3rd Friday | Frederick Steiwer (R) |
| *Idaho | | 24 | 4th Tuesday | John Thomas (R) |
| *North Carolina | June | 4 | 1st Saturday | Cameron Morrison (D) |
| *Iowa | | 6 | 1st Monday | Smith W. Brookhart (R) |
| *Florida | | 7 | 1st Tuesday after 1st Monday | Duncan U. Fletcher (D) |
| *Maine | | 20 | 3rd Monday | |
| *Minnesota | | 20 | 3rd Monday | |
| *North Dakota | | 29 | Last Wednesday | Gerald P. Nye (R) |
| Oklahoma | July | 5 | 1st Tuesday | Elmer Thomas (D) |
| *Montana | | 19 | 3rd Tuesday | |
| *Texas | | 23 | 4th Saturday | |
| *Kansas | Aug. | 2 | 1st Tuesday | George McGill (D) |
| *Missouri | | 2 | 1st Tuesday | Harry B. Hawes (D) |
| Virginia | | 2 | 1st Tuesday | |
| *Tennessee | | 4 | 1st Thursday | |
| Kentucky | | 6 | 1st Saturday | Alben W. Barkley (D) |
| *Arkansas | | 9 | 2nd Tuesday | Hattie W. Caraway (D) |
| Mississippi | | 16 | 3rd Tuesday | |
| Wyoming | | 16 | 1st Tuesday after 3rd Monday | |
| California | | 30 | Last Tuesday | Samuel M. Shortridge (R) |
| South Carolina | | 30 | Last Tuesday | Ellison D. Smith (D) |
| Nevada | Sept. | 6 | 1st Tuesday | Tasker L. Oddie (R) |
| *Arizona | | 13 | 8th Tuesday prior to election | Carl Hayden (D) |
| *Colorado | | 13 | 2nd Tuesday | Charles W. Waterman (R) |
| Louisiana | | 13 | 2nd Tuesday | Edwin S. Broussard (D) |
| *Vermont | | 13 | 2nd Tuesday | Porter H. Dale (R) |
| *Washington | | 13 | 2nd Tuesday | Wesley L. Jones (R) |
| *Michigan | | 13 | 1st Tuesday after 2nd Monday | |
| *New Hampshire | | 13 | 1st Tuesday after 2nd Monday | George H. Moses (R) |
| *Wisconsin | | 20 | 3rd Tuesday | John J. Blaine (R) |
| *Massachusetts | | 20 | 7th Tuesday prior to election | |
| *New York | | 20 | 7th Tuesday prior to election | Robert F. Wagner (D) |
| *Georgia | | | Day not fixed by law | Walter F. George (D) |

## State Nominating Conventions—1932

| | | |
|---|---|---|
| *Connecticut | Day not fixed by law | Hiram Bingham (R) |
| *Delaware | Day not fixed by law | |
| ‖Rhode Island | Day not fixed by law | |
| *Utah | Day not fixed by law | Reed Smoot (R) |
| *New Mexico | Day not fixed by law | |

NOTES:

*States indicated will elect Governors in 1932, 34 in number.

Thirty-three Senators are to be elected—one (in New Jersey) out of the regular order.

Primary and convention dates not fixed by law are to be set by the party state central committees.

In Indiana and New York candidates for the House of Representatives will be nominated in primaries on the dates above listed; candidates for United States Senator and Governor in state conventions to be held following the primaries, on dates to be set by the party state central committees. Delegates to the state conventions are to be elected in the primaries.

### GENERAL ELECTION DAY

Tuesday, November 8, is general election day in 1932 in all states with the exception of Maine. Maine will elect tis members of the House, state and county officers on Monday, September 12, 1932; Presidential electors November 8.

List prepared by National Republican Congressional Committee, 422 Barr Building, Washington, D. C.

# How Uncle Sam's Laws Are Made

## Series by Norborne T. N. Robinson

***The following article is the fourth of a series of consecutive articles in which all phases of House and Senate procedure will be described. The articles are being prepared with the aid of the leading parliamentary authorities at the Capital, including members of both the Senate and the House and officers of those two bodies.***

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It is safe to say that ninety per cent of the work done by the United States Congress is done in committee. Therefore, a knowledge of the committee systems of the Senate and House is necessary if one is to understand how legislation is handled.

The rules of the House provide that all proposed legislation shall be referred to committee. The Senate rules do not contain this provision, but only on rare occasions does the Senate consider for passage an important bill or resolution that has not been considered by a committee.

The committee system dates back almost to the birth of legislative bodies. It was employed in the Continental Congress and in the Constitutional Convention. Naturally, therefore, it was almost automatically adopted by the Congress of the United States as soon as the First Congress was organized in 1789.

The primary function of a committee of a legislative body is to consider and prepare legislation for action and disposition by the legislative body itself. Obviously the legislative body would find it extremely difficult to consider each legislative proposal in detail. In fact, such a system, owing to the time involved, would result in the final disposition of only a fraction of the business that must be transacted.

Therefore, it is through the committee system that all legislative bodies function. And it is through the committees of the Senate and the House of Representatives of the Congress of the United States that the right of petition guaranteed to American citizens by the Constitution is really exercised.

Under the present organization of the House there are 47 standing committees. A standing committee is a permanent committee, one which has been created by a vote of the House to stand from Congress to Congress, as distinguished from a select committee or a special committee which is created for a special or temporary purpose and which goes out of existence as soon as it has completed the work for which it was created. Here is the list of the House committees:

Accounts; Agriculture; Appropriations;

Banking and Currency;

Census; Civil Service; Claims; Coinage, Weights and Measures;

Disposition of Useless Executive Papers; District of Columbia;

Education; Election of President, Vice-President and Representatives in Congress; Elections No. 1; Elections No. 2; Elections No. 3; Enrolled Bills; Expenditures in the Executive Departments;

Flood Control; Foreign Affairs;

Immigration and Naturalization; Indian Affairs; Insular Affairs; Interstate and Foreign Commerce; Invalid Pensions; Irrigation and Reclamation;

Judiciary;

Labor; Library;

Memorials; Merchant Marine, Radio and Fisheries; Military Affairs; Mines and Mining;

Naval Affairs;

Patents; Pensions; Post Office and Post Roads; Printing; Public Buildings and Grounds; Public Lands;

Revision of the Laws; Rivers and Harbors; Roads; Rules;

Territories;

War Claims; Ways and Means; World War Veterans' Legislation.

As the titles of the committees indicate, each has been permanently set up to handle a specific class of legislation. Bills and resolutions introduced in the House are referred to these different committees almost automatically, as has been described in a previous article. The Speaker of the House is held responsible for the reference to committee of all bills and resolutions introduced in the House, but this function is actually performed by a clerk except in cases where there is doubt in the clerk's mind as to which committee a given bill or resolution should be sent to. On this ocsasion he presents the bill to the Speaker who makes the decision and instructs the clerk as to which committee to send the bill to.

From the organization of the House in 1789 down to 1911 members of committees were appointed by the Speaker of the House. On April 5, 1911, the House adopted a rule (Rule X) providing that the members of standing committees of the House should be elected by the House at the beginning of each Congress.

Before the candidates for membership and chairmanships of committees are voted on by the House each of the two major political parties, Republican and Democratic, select their respective candidates and vote for them on party lines.

This party selection of candidates, however, is not provided for in the rules of the House. All the House rules say is that the members of committees shall be elected by the House. But if the two parties did not make out lists of candidates in advance the election of committee members would be long-drawn-out and more or less disorderly events. Consequently each party presents its slate of candidates and these slates are almost invariably accepted by the House and approved by formal vote.

The selection of Democratic candidates for committee membership is made by the Democratic members of the Committee on Ways and Means who are, ex-officio, a Committee on Committees. When a new Congress con-

*Continued on page 160*

venes the Democrats who served on the Committee on Ways and Means in the preceding Congress and who were re-elected, meet and make up a committee list out of all the Democrats elected to the new Congress.

These selections made, the Committee on Committees presents them to a caucus of all the Democratic members of the new House. The caucus usually approves the selections made by the Committee on Committees, but sometimes it makes changes. When the list has been passed upon by the caucus it is ready for presentation to the House, backed by the votes of all the Democratic members.

The Republican method of selecting candidates for committee membership differs from that of the Democrats in one respect only. The Republican Committee on Committees, instead of being composed of the Republican members of the Committee on Ways and Means, is composed of a Republican from each State having Republican representation in the House. The Republican members of each State delegation select a member from among themselves to represent them on the Committee on Committees. If there happens to be a single Republican member of the House from a given State, he automatically becomes the representative of that State on the Republican Committee on Committees.

The division of representation on House committees as between the majority party and the minority party usually follows the ratio of the House membership, except in some of the more important committees whose action on the legislation it prepares must definitely reflect the party policy. On these committees the proportion of majority members to minority members is always such as to assure the majority party complete control.

Thus, under the present narrow margin in House membership as between Democrats and Republicans the membership of the Committee on Agriculture, which is 24, consists of 13 Democrats and 11 Republicans. On the other hand, the Committee on Ways and Means, which handles all revenue-raising measures such as those providing for tariff and taxation, has a membership of 25, consisting of 15 Democrats and 10 Republicans, while the Committee on Appropriations, with 35 members, consists of 21 Democrats and 14 Republicans.

The chairmen of all standing committees in the House are members of the majority party. The care and method in the selection of committee chairmen will be dealt with in the May number of the DIGEST.

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## This Month's Contributors

**Arthur A. Ballantyne,** Attorney at Law, N. Y. C.; Former Solicitor, U. S. Bureau of Internal Revenue.

**Calvin Coolidge,** Former President of the United States.

**Charles R. Crisp,** U. S. Representative, Ga., Dem.

**John W. Flannagan, Jr.,** U. S. Representative, Va., Dem.

**Willis C. Hawley,** U. S. Representative, Ore., Rep.

**Fiorello H. LaGuardia,** U. S. Representative, N. Y., Rep.

**Charles H. Martin,** U. S. Representative, Ore., Dem.

**Hon. Andrew W. Mellon,** Former Secretary, U. S. Treasury.

**Hon. Ogden L. Mills,** Secretary of the U. S. Treasury.

**H. T. Newcomb,** R. R. Economist, N. Y. C. V.-P. and General Counsel, Delaware and Hudson Co.

**Mark Sullivan,** Political Writer.

**Henry T. Rainey,** U. S. Representative, Ill., Rep.

**Allen T. Treadway,** U. S. Representative, Mass., Rep.

**Clyde Williams,** U. S. Representative, Mo., Dem.

## This Month's Sources

1—(Coolidge) from an article published in *The Saturday Evening Post,* March 26, 1930.

2—(Sullivan) from an article published in *The Washington Star,* April 10, 1932.

3—House Committee Report, March 8, 1932.

4—Hearings, House Committee on Ways and Means, Jan. 13, 1932.

5—*Congressional Record,* March 10, 1932.

6—*Congressional Record,* March 15, 1932.

7—*Congressional Record,* March 11, 1932.

8—Statement by Secretary Mills before the Finance Committee of the Senate with reference to H. R. 10236, the Revenue Bill for 1932.

9—*Congressional Record,* March 12, 1932.

10—*Congressional Record,* March 16, 1932.

11—*Congressional Record,* March 17, 1932.

12—*Congressional Record,* March 18, 1932.

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*(Required by Act of Congress, August 24, 1912)*

Of THE CONGRESSIONAL DIGEST, published monthly (except for months of July and August), at Washington, D. C., for April 1, 1931.

Before me, a Notary Public in and for the District of Columbia, City of Washington, personally appeared A. G. Robinson who, having been duly sworn according to law, deposes and says she is the Editor, Publisher and Owner of THE CONGRESSIONAL DIGEST and that the following is, to the best of her knowledge and belief, a true statement of the ownership, management, etc., of the aforesaid publication for the date shown in the above caption, required by the Act of August 24, 1912, embodied in Section 443, Postal Laws and Regulations, to-wit:

1. That the names and addresses of the publishers, editors, managing editors, and business managers are: A. G. Robinson and N. T. N. Robinson, Munsey Building, Washington, D. C.

2. That the owner is: A. G. Robinson, Munsey Building, Washington, D. C.

3. That the known bondholders, mortgagors, and other security holders owning or holding one per cent or more of total amount of bonds, mortgages, or other securities are (if there are none, so state). None.

N. T. N. ROBINSON,
Signature of Editor.

Sworn to and subscribed before me this 20th day of March, 1932.

FRANK E. ELDER, Notary Public.
My commission expires April 23, 1936.